ORIGINAL NEW APPLICATION

0000154040

ARIZONA CORPORATION COMMISSION

Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services

Mail original plus 13 copies of completed application to:

For Docket Control Only: (Please Stamp Here)

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

T-20912A-14-0300

Please indicate if you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services.

Type of Service: ______

Docket No.: ______ Date: ______ Date Docketed: ______

Type of Service: ______

Docket No.: ______ Date: ______ Date Docketed: ______

A. COMPANY AND TELECOMMUNICATION SERVICE INFORMATION

(A-1) Please indicate the type of telecommunications services that you want to provide in Arizona and mark the appropriate box(s).

[X] Resold Long Distance Telecommunications Services (Answer Sections A, B).

[X] Resold Local Exchange Telecommunications Services (Answer Sections A, B, C).

[X] Facilities-Based Long Distance Telecommunications Services (Answer Sections A, B, D).

[X] Facilities-Based Local Exchange Telecommunications Services (Answer Sections A, B, C, D, E)

[ ] Alternative Operator Services Telecommunications Services (Answer Sections A, B)

[ ] Other ______ (Please attach complete description)

x(A-2) The name, address, telephone number (including area code), facsimile number (including area code), e-mail address, and World Wide Web address (if one is available for consumer access) of the Applicant:

RCLEC, Inc.

1400 Fashion Island Blvd., 7th Floor

San Mateo, CA 94404

www.rclec.com CS: 877-888-3156 Fax: 650-472-4100 Email: ops@rclec.com

(A-3) The d/b/a ("Doing Business As") name if the Applicant is doing business under a name different from that listed in Item (A-2):

(A-4) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Management Contact:

Jeff Slater

1400 Fashion Island Blvd., 7th Floor

San Mateo, CA 94404

(650) 931-6664 Fax: 650-620-1153 E-Mail: jeff.slater@rclec.com

(A-5) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Attorney and/or Consultant:

Anita Taff-Rice

iCommLaw

1547 Palos Verdes, #298

Walnut Creek, CA 94597 Telephone: 415-699-7885 Fax: 925-274-0988 anita@icommlaw.com

(A-6) The name, address, telephone number (including area code), facsimile number (including area code), and E-mail address of the Applicant's Complaint Contact Person:

Jeff Slater

1400 Fashion Island Blvd., 7th Floor

San Mateo, CA 94404

(650) 931-6664 Fax: 650-620-1153 E-Mail: jeff.slater@rclec.com

(A-7) What type of legal entity is the Applicant? Mark the appropriate box(s) and category.

☐ Sole proprietorship

☐ Partnership: ____ Limited, ____ General, ____ Arizona, ____ Foreign

☐ Limited Liability Company: ____ Arizona, ____ Foreign

☒ Corporation: ____ "S", __X__ "C", ____ Non-profit

☐ Other, specify: ______________________________

(A-8) Please include "Attachment A":

Attachment "A" must include the following information:

1. A copy of the Applicant's Certificate of Good Standing as a domestic or foreign corporation, LLC, or other entity in Arizona.
2. A list of the names of all owners, partners, limited liability company managers (or if a member

managed LLC, all members), or corporation officers and directors (specify).

3. Indicate percentages of ownership of each person listed in A-8.2.

(A-9) Include your Tariff as "Attachment B".

Your Tariff must include the following information:

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).
2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).
3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).
4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).
5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

Please see **Attachment B** for the specific Tariff pages requested.

(A-10) Indicate the geographic market to be served:

[X] Statewide. (Applicant adopts statewide map of Arizona provided with this application).

[ ] Other. Describe and provide a detailed map depicting the area.

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings before any state or federal regulatory commission, administrative agency, or law enforcement agency.

Describe in detail any such involvement. Please make sure you provide the following information:

1. States in which the Applicant has been or is involved in proceedings.
2. Detailed explanations of the Substance of the Complaints.
3. Commission Orders that resolved any and all Complaints.
4. Actions taken by the Applicant to remedy and/or prevent the Complaints from re-occurring.

See Exhibit A for additional information.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

Describe in detail any such judgments or convictions. Please make sure you provide the following information:

1. States involved in the judgments and/or convictions.
2. Reasons for the investigation and/or judgment.
3. Copy of the Court order, if applicable.

See Exhibit A for additonal information.

(A-13) Indicate if the Applicant's customers will be able to access alternative toll service providers or resellers via 1+101XXXX access.

[X] Yes [ ] No

(A-14) Is Applicant willing to post a Performance Bond? Please check appropriate box(s).

☐ For Long Distance Resellers, a $10,000 bond will be recommended for those resellers who collect advances, prepayments or deposits.

Yes [X] No

If "No", continue to question (A-15).

☐ For Local Exchange Resellers, a $25,000 bond will be recommended.

☐ Yes [X] No

If "No", continue to question (A-15).

☐ For Facilities-Based Providers of Long Distance, a $100,000 bond will be recommended.

☐ Yes [X] No

If "No", continue to question (A-15).

☐ For Facilities-Based Providers of Local Exchange, a $100,000 bond will be recommended.

☐ Yes [X] No

If any box in (A-14) is marked "No", continue to question (A-15).

Note: Amounts are cumulative if the Applicant is applying for more than one type of service.

(A-15) If any box in (A-14) is marked "No", provide the following information. Clarify and explain the Applicant's deposit policy (reference by tariff page number). Provide a detailed explanation of why the Applicant's superior financial position limits any risk to Arizona consumers.

The Company understands that the Commission is no longer requiring a bond or letter of credit as a condition of approval except in extraordinary circumstances. Moreover,The Company is requesting a waiver, as it will not be selling services to end users, and will not require deposits from the other providers it intends to sell its services.

(A-16) Submit copies of affidavits of publication that the Applicant has, as required, published legal notice of the Application in all counties where the Applicant is requesting authority to provide service.

Note: For Resellers, the Applicant must complete and submit an Affidavit of Publication Form as Attachment "C" before Staff prepares and issues its report. Refer to the Commission's website for Legal Notice Material (Newspaper Information, Sample Legal Notice and Affidavit of Publication). For Facilities-Based Service Providers, the Hearing Division will advise the Applicant of the date of the hearing and the publication of legal notice. Do not publish legal notice or file affidavits of publication until you are advised to do so by the Hearing Division.

Applicant will publish a legal notice, as directed by the Commission at the appropriate time.

(A-17) Indicate if the Applicant is a switchless reseller of the type of telecommunications services that the Applicant will or intends to resell in Arizona:

☐ Yes [X] No

If "Yes", provide the name of the company or companies whose telecommunications services the Applicant resells.

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in Arizona:

Note: If the Applicant is currently approved to provide telecommunications services that the Applicant intends to provide in Arizona in less than six states, excluding Arizona, list the Public Utility Commission ("PUC") of each state that granted the authorization. For each PUC listed provide the name of the contact person, their phone number, mailing address including zip code, and e-mail address.

See Exhibit A (response to Question A-18).

(A-19) List the States in which the Applicant currently offers telecommunications services similar to those that the Applicant will or intends to offer in Arizona.

Note: If the Applicant currently provides telecommunication services that the Applicant intends to provide in Arizona in six or more states, excluding Arizona, list the states. If the Applicant does not currently provide telecommunications services that the Applicant intends to provide in Arizona in five or less states, list the key personnel employed by the Applicant. Indicate each employee's name, title, position, description of their work experience, and years of service in the telecommunications services industry.

The Applicant is providing service in CA, FL, NY, NV, and TX. See Exhibit G for key personnel biographies.

(A-20) List the names and addresses of any alternative providers of the service that are also affiliates of the telecommunications company, as defined in R14-2-801.

None

(A-21) Check here if you wish to adopt as your petition a statement that the service has already been classified as competitive by Commission Decision:

[X] Decision # 64178 Resold Long Distance

[X] Decision # 64178 Resold LEC

[X] Decision # 64178 Facilities Based Long Distance

[X] Decision # 64178 Facilities Based LEC

B. FINANCIAL INFORMATION

(B-1) Indicate if the Applicant has financial statements for the two (2) most recent years.

[X] Yes [ ] No

If "No," explain why and give the date on which the Applicant began operations.

(B-2) Include "Attachment D".

Provide the Applicant's financial information for the two (2) most recent years.

1. A copy of the Applicant's balance sheet.
2. A copy of the Applicant's income statement.
3. A copy of the Applicant's audit report.
4. A copy of the Applicant's retained earnings balance.
5. A copy of all related notes to the financial statements and information.

<u>Note:</u> Make sure "most recent years" includes current calendar year or current year reporting period.

(B-3) Indicate if the Applicant will rely on the financial resources of its Parent Company, if applicable.

Yes.

(B-4) The Applicant must provide the following information.

1. Provide the projected total revenue expected to be generated by the provision of telecommunications services to Arizona customers for the first twelve months following certification, adjusted to reflect the maximum rates for which the Applicant requested approval. Adjusted revenues may be calculated as the number of units sold times the maximum charge per unit.
2. Provide the operating expenses expected to be incurred during the first twelve months of providing telecommunications services to Arizona customers following certification.
3. Provide the net book value (original cost less accumulated depreciation) of all Arizona jurisdictional assets expected to be used in the provision of telecommunications service to Arizona customers at the end of the first twelve months of operation. Assets are not limited to plant and equipment. Items such as office equipment and office supplies should be included in this list.
4. If the projected value of all assets is zero, please specifically state this in your response.
5. If the projected fair value of the assets is different than the projected net book value, also provide the corresponding projected fair value amounts.

See Exhibit E.

C. RESOLD AND/OR FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(C-1) Indicate if the Applicant has a resale agreement in operation,

☐ Yes ☒ No

If "Yes", please reference the resale agreement by Commission Docket Number or Commission Decision Number.

D. FACILITIES-BASED LONG DISTANCE AND/OR FACILITIES BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(D-1) Indicate if the Applicant is currently selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona. This item applies to an Applicant requesting a geographic expansion of their CC&N:

☐ Yes ☒ No

If "Yes," provide the following information:

1. The date or approximate date that the Applicant began selling facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services in Arizona.
2. Identify the types of facilities-based long distance telecommunications services AND/OR facilities-based local exchange telecommunications services that the Applicant sells in Arizona.

If "No," indicate the date when the Applicant will begin to sell facilities-based long distance telecommunications AND/OR facilities-based local exchange telecommunications services in Arizona.

E. FACILITIES-BASED LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

(E-1) Indicate whether the Applicant will abide by the quality of service standards that were approved by the Commission in Commission Decision Number 59421:

☒ Yes ☐ No

(E-2) Indicate whether the Applicant will provide all customers with 911 and E911 service, where available, and will coordinate with incumbent local exchange carriers ("ILECs") and emergency service providers to provide this service:

☐ Yes ☒ No RCLEC provides wholesale services to other providers and does not have end users.

(E-3) Indicate that the Applicant's switch is "fully equal access capable" (i.e., would provide equal access to facilities-based long distance companies) pursuant to A.A.C. R14-2-1111 (A):

☒ Yes ☐ No

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county, and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona state law including the Arizona Corporation Commission Rules. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

(Signature of Authorized Representative)

8/11/14

(Date)

Bruce Johnson

(Print Name of Authorized Representative)

Secretary

(Title)

SUBSCRIBED AND SWORN to before me this 11 day of August, 2014

NOTARY PUBLIC

My Commission Expires 06/11/2016

VERONIKA ZATULOVSKAYA
Commission # 1981701
Notary Public - California
San Mateo County
My Comm. Expires Jun 11, 2016

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

CIVIL CODE § 1189

State of California

County of San Mateo

On 8/11/2014 before me, Veronika Zatulovskaya, notary Public
Date — Here Insert Name and Title of the Officer

personally appeared Bruce Johnson
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

VERONIKA ZATULOVSKAYA
Commission # 1981701
Notary Public - California
San Mateo County
My Comm. Expires Jun 11, 2016

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ______________________
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: ______________________

Document Date: ______________________ Number of Pages: ________

Signer(s) Other Than Named Above: ______________________

Capacity(ies) Claimed by Signer(s)

Signer's Name: ______________________

☐ Corporate Officer — Title(s): ____________

☐ Individual

☐ Partner — ☐ Limited ☐ General

☐ Attorney in Fact

☐ Trustee

☐ Guardian or Conservator

☐ Other: ____________

Signer Is Representing: ____________

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

Signer's Name: ______________________

☐ Corporate Officer — Title(s): ____________

☐ Individual

☐ Partner — ☐ Limited ☐ General

☐ Attorney in Fact

☐ Trustee

☐ Guardian or Conservator

☐ Other: ____________

Signer Is Representing: ____________

RIGHT THUMBPRINT OF SIGNER
Top of thumb here

APPLICATION FOR CERTIFICATE OF
PUBLIC CONVENIENCE AND NECESSITY

EXHIBIT	DESCRIPTION
A	COPY OF APPLICANT'S CERTIFICATE OF GOOD STANDING IN ARIZONA
	LIST OF NAMES OF ALL OWNERS AND PARTNERS
	OWNERSHIP STRUCTURE
	RESPONSE TO QUESTION A-11 and A-12
	RESPONSE TO QUESTION A-18
B	TARIFFS
C	AFFIDAVITS OF PUBLICATION
D	FINANCIAL STATEMENTS
E	PROJECTED TOTAL REVENUE AND OPERATING EXPENSES
	RESPONSE TO QUESTION B-4
F	ADDITIONAL INFORMATION
G	KEY PERSONNEL BIOS

APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

EXHIBIT	DESCRIPTION
A	COPY OF APPLICANT'S CERTIFICATE OF GOOD STANDING IN ARIZONA
	LIST OF NAMES OF ALL OWNERS AND PARTNERS
	OWNERSHIP STRUCTURE
	RESPONSE TO QUESTION A-11 and A-12
	RESPONSE TO QUESTION A-18
B	TARIFFS
C	AFFIDAVITS OF PUBLICATION
D	FINANCIAL STATEMENTS
E	PROJECTED TOTAL REVENUE AND OPERATING EXPENSES
	RESPONSE TO QUESTION B-4
F	ADDITIONAL INFORMATION
G	KEY PERSONNEL BIOS

EXHIBIT A

COPY OF APPLICANT'S CERTIFICATE OF GOOD STANDING

LIST OF NAMES OF ALL OWNERS, PARTNERS, LIMITED LIABILITY COMPANY MANAGERS

OWNERSHIP STRUCTURE

STATE OF ARIZONA

Office of the

CORPORATION COMMISSION

CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Jodi A. Jerich, Executive Director of the Arizona Corporation Commission, do hereby certify that

****RCLEC, INC.****

a foreign corporation organized under the laws of Delaware did obtain authority to transact business in the State of Arizona on the 24th day of April 2013.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation has not had its authority revoked for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed an Application for Withdrawal as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 25th Day of July, 2014, A. D.

Jodi A. Jerich

Jodi A. Jerich, Executive Director

By: 1097434

EXHIBIT A

A list of the names of all owners, partners, limited liability company managers (or if a member managed LLC, all members), or corporation officers and directors (specify).

RCLEC, Inc. is corporation incorporated in the State of Delaware.

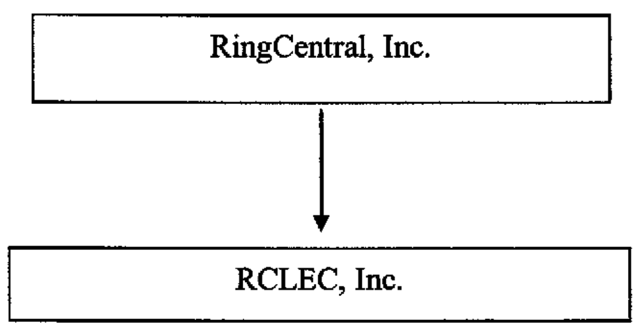
The owners are:

RCLEC, Inc. is owned by the parent company: RingCentral, Inc.

Indicate percentages of ownership of each person listed in A-8.2.

RingCentral, Inc. owns 100% of the shares of the Company

Ownership Structure



RESPONSE TO QUESTIONS A-11 and A-12

(A-11) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any formal or informal complaint proceedings before any state or federal regulatory commission, administrative agency, or law enforcement agency.

(A-12) Indicate if the Applicant or any of its officers, directors, partners, or managers has been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

RCLEC's parent, RingCentral, Inc., was in the past a defendant in the now resolved federal court case, *J2 and Advanced Messaging Technologies, Inc. v. RingCentral, Inc.*, United States District Court for the Central District of California, Case No. 2:11-cv-04686-DDP-AJW0, filed June 1, 2011. This was an intellectual property case involving a patent issue involving technology that is not used by RCLEC.

There is no pending civil or criminal proceedings against RCLEC itself, or any of its officers in any jurisdiction (including settlements of any such proceeding regardless of whether liability is or is not admitted). To the best of RCLEC's knowledge and belief there is no threatened litigation against it.

None of RCLEC's officers, directors, partners, or managers have been or are currently involved in any civil or criminal investigation, or had judgments entered in any civil matter, judgments levied by any administrative or regulatory agency, or been convicted of any criminal acts within the last ten (10) years.

RESPONSE TO QUESTION A-18

(A-18) List the States in which the Applicant has had an application approved or denied to offer telecommunications services similar to those that the Applicant will or intends to offer in Arizona:

States in which the Applicant has received Commission certifications:

California

Colorado

Florida

D.C.

Illinois

Indiana

Massachusetts

Michigan

Minnesota

Nevada

New

Jersey

New York

Ohio

Pennsylvania

Texas

Washington

Wisconsin

The Applicant has not had any applications denied. The Company has a pending application in Georgia.

RCLEC anticipates filings applications for local exchange and intrastate interexchange authority in the very near future in Alabama, Connecticut, Kentucky, Louisiana, Maryland, Missouri, Oregon, Tennessee and Utah.

EXHIBIT B

TARIFFS

EXHIBIT B

TARIFF REFERENCES

ARIZONA CC TARIFF NO. 1

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).

   Sheets 45-48

2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).

   Sheets 45-48

3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).

   Sheets 13-37

4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).

   Sheet 19

5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

   Sheet 20

ARIZONA CC TARIFF NO. 2

1. Proposed Rates and Charges for each service offered (reference by Tariff page number).

   Sheet 21

2. Tariff Maximum Rate and Prices to be charged (reference by Tariff page number).

   Sheet 22

3. Terms and Conditions Applicable to provision of Service (reference by Tariff page number).

   Sheets 8-19

4. Deposits, Advances, and/or Prepayments Applicable to provision of Service (reference by Tariff page number).

   Sheets 15

5. The proposed fee that will be charged for returned checks (reference by Tariff page number).

   Page 15

RCLEC, INC.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

TARIFF NO. 1

REGULATIONS AND SCHEDULE OF CHARGES
GOVERNING THE PROVISION OF
COMPETITIVE LOCAL EXCHANGE SERVICE
APPLICABLE IN
ALL TERRITORIES SERVED BY THIS COMPANY
WITHIN THE STATE OF ARIZONA

TELECOMMUNICATIONS SERVICES

TABLE OF CONTENTS

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

CHECK SHEET

Sheets 1 through 48, inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this sheet.

SHEET	REVISION	SHEET	REVISION
Title	Original	31	Original
1	Original	32	Original
2	Original	33	Original
3	Original	34	Original
4	Original	35	Original
5	Original	36	Original
6	Original	37	Original
7	Original	38	Original
8	Original	39	Original
9	Original	40	Original
10	Original	41	Original
11	Original	42	Original
12	Original	43	Original
13	Original	44	Original
14	Original	45	Original
15	Original	46	Original
16	Original	47	Original
17	Original	48	Original
18	Original		
20	Original		
21	Original		
22	Original		
23	Original		
24	Original		
25	Original		
26	Original		
27	Original		
28	Original		
29	Original		
30	Original		

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

TARIFF FORMAT

Page Numbering - Page numbers appear in the upper right hand corner of the page. Pages are numbered sequentially. From time to time new pages may be added to the tariff. When a new page is added between existing pages, a decimal is added to the preceding page number. For example, a new page added between Pages 3 and 4 would be numbered 3.1.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

CONCURRING CARRIERS

None

CONNECTING CARRIERS

None

OTHER PARTICIPATING CARRIERS

None

EXPLANATION OF SYMBOLS

Changes to this tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

(C) To signify changed regulation

(D) To signify discontinued rate or regulation

(I) To signify an increase

(L) To signify matter relocated without change

(N) To signify new rate or regulation

(R) To signify reduction

(S) To signify reissued matter

(T) To signify change in text but no change in rate or regulation

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7^{th} Floor
San Mateo, CA 94404

APPLICATION OF TARIFF

This Tariff contains the descriptions, regulations, and rates applicable to the provision of competitive local exchange service by RCLEC, Inc. ("RCLEC") to wholesale business customers. Copies may be inspected during normal business hours at the Company's principal place of business: 1400 Fashion Island Blvd., 7th Fl., San Mateo, CA 94404, and are also on file with the Arizona Corporation Commission (ACC).

The rules and regulations contained in this tariff apply to the services and facilities provided by the Company in the State of Arizona. When services and facilities are provided in part by the Company and in part by other connecting companies, the regulations of the Company apply to the portion of the services or facilities furnished by the Company. Failure on the part of the customer to observe these rules and regulations after due notice of such failure, automatically gives the Company the right to discontinue service to that customer.

In the event of a conflict between any rate, rule, regulation or provision contained in this tariff and any rate, rule, regulation or provision contained in the tariffs of Companies in which the Company concurs, the rate, rule, regulation or provision contained in this tariff shall prevail.

Should there be any conflict between this tariff and the Rules and Regulations of the Commission, the Commission's rules shall apply unless otherwise established by the courts.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

ACCESS SERVICE(S) - The Company's intrastate telephone services offered pursuant to this Tariff.

IOBASE-T - An Ethernet LAN that works on twisted pair wiring that is similar to telephone cable.

ACTUAL COST - Any costs charged against a special case or circumstance, including any appropriate taxes or other overhead.

BASE STATION - All of the radio equipment located at one fixed station (tower or existing high structure) in a cellular/wireless network, used for communicating with mobile terminals. A Base Station is what links mobile phones to a wireless carrier's network.

BATTERY BACKUP - The name given to a secondary power supply, usually a direct current battery, to provide power in the absence of the main power supply.

BEST-EFFORT INTERNET ACCESS - A classification of low priority network traffic used especially in relation to the Internet. Different kinds of traffic have different priorities. Videoconferencing and other types of real-time communication, for example, require a certain minimum guaranteed bandwidth and latency and so must be given a high priority. Electronic mail, on the other hand, can tolerate an arbitrarily long delay and is classified as a "best-effort" service.

CARRIER HOTEL - A point of presence that offers collocation services.

CELLULAR BACKHAUL - In wireless networks, the connection from an individual base station (tower) to the central network (backbone). Typical backhaul connections are wired high-speed data connections (T1 line, fiber), but they can be wireless as well (using point-to-point microwave or WiMax, etc.)

CHANNEL or CIRCUIT - A communications path between two or more endpoints, at a transmission speed agreed to between Company and Customer.

COLOCATION - An arrangement whereby the facilities of Customer are terminated with the equipment necessary to provide interconnection for the purpose of accessing the Services offered by Company.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (CONT'D)

COLOCATION SPACE - The space designated by Company for the installation of Customer's equipment for Collocation.

COMMISSION: The Arizona Corporation Commission (ACC)

COMMON VOIP PATH - A designated path dedicated to voice requiring the highest level of clarity/QoS. A technology for transmitting voice, such as ordinary telephone calls, over packet-switched data networks. Also called IP telephony

COMPANY - RCLEC, Inc. ("RCLEC"), the issuer of this Tariff, and its concurring subsidiaries.

CONVERGENT DATA NETWORK - The efficient coexistence of telephone, video and data communication within a single network. The use of multiple communication modes in a single network offers convenience and flexibility not possible with separate infrastructures. Network convergence is also called media convergence.

CROSS-CONNECT - A connection provided to Customer from any Company POP to the facilities of Customer or another Service Provider approved by Company.

CUSTOMER - The person, firm, corporation or other entity which orders Service and is responsible for the payment of charges and compliance with the terms and conditions of this Tariff, including Service Providers but excluding End Users.

DESIGN LAYOUT REPORT or DLR - A record containing the technical information that describes the facilities and terminations provided at the request of Customer by the Company to the Customer. The technical information is needed by Company to design the overall service and includes such items as cable makeup (gauge, loading, length, etc.), channel bank type and system mileage, signaling termination compatibility, etc.

DIRECT INTERNET ACCESS (DIA) - Metropolitan Ethernet Access service that supports IP IPv4 protocol and is intended for eventual connection to the Internet by the Customer.

EMERGENCY POWER - A source of power that becomes available, usually automatically, when normal power line service fails. For networks, this very often refers to generator power.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (CONT'D)

END USER - Any subscriber of a service that is not a Customer or a Service Provider, except that a Service Provider shall be deemed to be an "End User" when such Service Provider uses a Service for administrative purposes and a person or entity that offers telecommunications services exclusively as a reseller shall be deemed to be an "End User" if all resale transmissions offered by such reseller originates or terminates on the premises of such reseller.

END USER PREMISES - The premises specified by Customer for termination of Services.

ETHERNET - A 100 MBPS technology based on the IOBASE-T Ethernet CSMA/CD network access method to accommodate the operation of local area networks (LANs):

EXCHANGE POINT - a remote Carrier Hotel that can support Wholesale Transit Services but not Wholesale Access Services.

FACILITIES - Any cable, poles, conduit, carrier equipment, wire center distribution frames, central office equipment, etc., utilized to provide the Services offered under this Tariff.

FIRE SUPPRESSION SYSTEM - an automated system specifically designed for data centers that involves no human interaction and is minimally invasive to computer equipment.

GATEWAY - A network node equipped for interfacing with another network.

GATEWAY ROUTER - A device on a network that is responsible for the establishment of mutually acceptable administrative procedures between two or more networks.

GBPS - Gigabits per second, denotes billions of bits per second.

HIGH DEFINITION MULTICAST - An enhanced or high definition transmission of a single sender and multiple receivers on a network.

HOTSPOT - A venue that offers internet access over a wireless LAN.

INDIVIDUAL CASE BASIS or ICB - A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (CONT'D)

INTERACTIVE VIDEO SESSION - A combination of video and computer technology in which the user's actions, choices, and decisions affect the way in which the program unfolds.

INTERNET PROTOCOL or IP - The protocol that specifies the format of information `packets' transported over the Internet, including how the packets are addressed for delivery.

IPTV - A system where a digital television service is delivered using Internet Protocol over a network infrastructure, which may include delivery by a broadband connection. A general definition of IPTV is television content that, instead of being delivered through traditional broadcast and cable formats, is received by the viewer through the technologies used for computer networks.

KBPS - Kilobits per second, denotes thousands of bits per second.

LOCAL AREA NETWORK or LAN - A short distance data communications network connecting computers and peripherals under a standard protocol inside a building or a campus. The LAN provides high bandwidth communications over coaxial cable, twisted pair, fiber or microwave media. LANs typically are owned by the End User.

MBPS - Megabits per second, denotes millions of bits per second.

MEET-ME FIBER DISTRIBUTION - A "carrier neutral" telecom hotel status to ensure autonomy in connections to consumers, Service Providers and tenants. This is the location in the Carrier Hotel where Service Providers are connected to the Company network.

MONTHLY RECURRING CHARGE or MRC - Monthly charges to the Customer for Services, facilities or equipment, which continue and are billed to Customer each month for the duration of the Service.

MULTICAST - Communication between a single sender and multiple receivers on a network.

QUALTITY OF SERVICE or QOS - The performance specification of a communications channel or system. QoS may be quantitatively indicated by channel or system performance parameters, such as signal-to-noise ratio (S/N), bit error ratio (BER), message throughput rate, and call blocking or packet dropping probability.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (CONT'D)

QOS CONDITIONING - The ability to provide different priority to different applications, users, or data flows, or to guarantee a certain level of performance to a data flow. For example, a required bit rate, delay, jitter, packet dropping probability and/or bit error rate may be guaranteed

SERVICE - Any means of Service offered herein or any combination thereof.

SERVICE DATE - The date on which Customer begins to utilize the Service or the date on which Service is made available for use by the Customer or its End Users, whichever is sooner.

SERVICE ORDER - A written request for Service executed by Customer and Company in the format devised by Company. The signing of a Service Order by Customer and the acceptance by Company, or the use of Service by Customer, initiates the respective obligations of the parties as set forth therein and pursuant to this Tariff.

SERVICE PROVIDER - Any other service provider, including but not limited to other telecommunications providers authorized by the Commission to provide telecommunications service in New Jersey, such as exchange carriers, electronic message service carriers, resellers and interconnect companies, as well as video service providers, Internet service providers.

SERVICE COMMENCEMENT DATE - The first date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this Tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and the Customer may mutually agree on a substitute Service Commencement Date. If the Company does not have an executed Service Order from a Customer, the Service Commencement Date will be the first date on which the service or facility was used by a Customer.

SERVICE SWITCHING POINT (SSP) - A Service Switching Point denotes an end office or tandem which, in addition to having SS7 and SP capabilities, is also equipped to query centralized data bases.

SERVING WIRE CENTER - The term "Serving Wire Center" denotes the wire center from which the Customer designated premises would normally obtain dial tone.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (CONT'D)

SOFTSWITCH - A central device in a telecommunications network which connects calls from one phone line to another, entirely by means of software running on a computer system. This work was formerly carried out by hardware, with physical switchboards to route the calls.

STANDARD DEFINITION MULTICAST - Communication between a single sender and multiple receivers on a network that has a resolution that meets standards but not considered either enhanced definition or high definition.

SYNCHRONOUS OPTICAL NETWORK or SONET - Transport network for synchronously multiplexed tributary signals. The standard defines a set of transmission rates, signals and interfaces for fiber optic transmission. The basic electrical signal runs at 51.840 Mbps, approximately 51 times the bandwidth of a standard US, Ti leased line running at 1.544Mbps. SONET grows in multiples of the basic signal into the multi-Gigabit range. SONET has the feature of adding and dropping lower bit-rate signals from the higher bit-rate signal without needing electrical demultiplexing.

TARIFF - The rates, charges, rules and regulations adopted and filed by RCLEC, Inc. with the Arizona Commerce Commission.

TDM - Time division multiplexing. A digital data transmission method that takes signals from multiple sources, divides them into pieces which are then placed periodically into time slots, transmits them down a single path and reassembles the time slots back into multiple signals on the remote end of the transmission.

TDMOIP - Time Division Multiplexing over the Internet Protocol.

TELECONFERENCING - The live exchange and mass articulation of information among persons and machines remote from one another but linked by a telecommunications system, usually over a phone line.

TELEPRESENCE - A set of technologies which allow a person to feel as if they were present, to give the appearance that they were present, or to have an effect, at a location other than their true location.

TERMINAL EMULATION PATH - A network application in which a computer runs software that makes it appear to a remote host as a directly attached terminal.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (CON'TD)

TOLL FREE - A term to describe an inbound communications service which permits a call to be completed at a location without charge to the calling party. Access to the service is gained by dialing a ten (10) digit telephone number (e.g. NPA is 800, 888, etc.).

UNICAST - The sending of information packets to a single destination.

VIRTUAL CONNECTION - A connection established between end users, where packets are forwarded along the same path and bandwidth is not permanently allocated until it is used.

WIRE CENTER - A building in which one or more central offices, used for the provision of exchange services, are located.

SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish Access Services in accordance with the terms and conditions set forth in this Tariff.

2.1.2 Shortage of Facilities

All service is subject to the availability of suitable facilities. The Company reserves the right to limit the length of communications or to discontinue furnishing services when necessary because of the lack of transmission medium capacity or because of any causes beyond its control.

2.1.3 Terms and Conditions

2.1.3.1 Service is provided on the basis of a minimum period of at least one month, 24 hours per day. For the purpose of computing charges in this Tariff, a month is considered to have 30 days.

2.1.3.2 Customers may be required to enter into written Service Orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this Tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

2.1.3.3 In any action between the parties to enforce any provision of this Tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

2.1.3.4 This Tariff shall be interpreted and governed by the laws of the State of New Jersey regardless of its choice of laws provision.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Limitations on Liability

2.1.4.1 The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

2.1.4.2 The Company shall not be liable for any claims for loss or damages involving:

1) Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) Common Carriers or warehousemen;

2) Any unlawful or unauthorized use of the Company's facilities and services;

3) Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the transmission of communications by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services with Customer-provided facilities or services;

4) Breach in the privacy or security of communications transmitted over the Company's facilities;

5) Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in Section 2.1.4.1 and 2.1.4.2, preceding;

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Limitations on Liability (Cont'd)

2.1.4.2 (Cont'd)

6) Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;

7) Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;

8) Any noncompletion of calls due to network busy conditions.

2.1.4.3 The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere. The Company shall be indemnified, defended and held harmless by the Customer from and against any and all claims, loss, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any equipment or facilities or the service.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Limitations on Liability (Cont'd)

2.1.4.4 The Company assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if the Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or non-preemptibility as may be provided by the other entities.

2.1.5 Provision of Equipment and Facilities

2.1.5.1 Except as otherwise indicated, Customer-provided station equipment at the Customer's premises for use in conjunction with this service shall be so constructed, maintained and operated as to work satisfactorily with the facilities of the Company.

2.1.5.2 The Company shall not be responsible for the installation, operation or maintenance of any Customer-provided communications equipment. Where such equipment is connected to service furnished pursuant to this Tariff, the responsibility of the Company shall be limited to the furnishing of services under this Tariff and to the maintenance and operation of such services in the proper manner. Subject to this responsibility, the Company shall not be responsible for:

1) the through transmission of signals generated by Customer-provided equipment or for the quality of or defects in such transmission; or

2) the reception of signals by Customer-provided equipment; or

3) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.6 Ownership of Facilities

Title to all facilities provided in accordance with this Tariff remains in the Company, its agents, contractors or suppliers.

2.2 Obligations of the Customer

2.2.1 General

2.2.1.1 The Customer shall be responsible for ensuring that the characteristics and methods of operation of any circuits, facilities or equipment not provided by the Company and associated with the facilities utilized to provide Service under this Tariff shall not interfere with or impair Service over facilities of the Company; cause damage to its plant; impair privacy or create hazards to employees or the public;

2.2.1.2 The Service provided under this Tariff shall not be used for any unlawful purpose; or used in an abusive manner which would reasonably be expected to frighten, abuse, torment or harass another; or interfere with use of Service by one or more customers; or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits;

2.2.1.3 If Customer intends to use the Company's offerings for resale and/or for shared use, Customer may be required to file a letter with the Company confirming that its use of the Company's offering complies with relevant laws and Commission regulations, policies, orders, guidelines and decisions;

2.2.1.4 The Customer shall be responsible for the payment of all applicable charges pursuant to this Tariff, including without limitation, charges for visits by the Company's employees or agents to the End User Premises when a Service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer or another Service Provider;

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.2 Obligations of the Customer (Cont'd)

2.2.1 General (Cont'd)

2.2.1.5 The Customer shall be responsible for damage to or loss of the Company's facilities or equipment caused by acts or omissions of the Customer; or noncompliance by the Customer; or by fire or theft or other casualty on the End User Premises, unless caused by the negligence or willful misconduct of Company's employees or agents;

2.2.2 Prohibited Uses

2.2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use for which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2.2 The Company may require a Customer to immediately shut down its transmission if such transmission is causing interference to others.

2.2.2.3 A Customer, Joint User, or Authorized User may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated Access services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this Tariff will apply.

2.2.3 Customer Premises Provisions

2.2.3.1 The Customer shall provide the personnel, power and space required to operate all facilities and associated equipment installed on the premises of the Customer.

2.2.3.2 The Customer shall be responsible for providing Company personnel access to premises of the Customer at any reasonable hour for the purpose of testing the facilities or equipment of the Company.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.3 Liability of the Customer

2.3.1 The Customer will be liable for damages to the facilities of the Company and for all incidental and consequential damages caused by the negligent or intentional acts or omissions of the Customer, its officers, employees, agents, invitees, or contractors where such acts or omissions are not the direct result of the Company's negligence or intentional misconduct.

2.4 Deposits

2.4.1 The Company does not charge its customers deposits.

2.5 Advanced Payments

2.5.1 The Company does not charge its customers advanced payments.

2.6 Claims

2.6.1 To the extent caused by any negligent or intentional act of the Customer as described in 2.2.1.2 preceding, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, for (1) any loss, destruction or damage to property of any third party, (2) the death of or injury to persons, including, but not limited to, employees or invitees of either party, and (3) any liability incurred by the Company to any third party pursuant to this or any other Tariff of the Company, or otherwise, for any interruption of, interference to, or other defect in any service provided by the Company to such third party.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.6 Claims (Cont'd)

2.6.2 The Customer shall not assert any claim against any other customer or user of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this Tariff including but not limited, to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other customer or user and not by any act or omission of the Company. Nothing in this Tariff is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

2.7 Payment Arrangements

2.7.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer.

2.7.1.1 Taxes

All Arizona and local taxes (including but not limited to franchise fees, excise tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

2.7.2 Return Check Charge

A return check charge of $25.00 will be assessed for checks made payable to the Company and returned for insufficient funds. For service billed on behalf of the Company, any applicable return check charges will be assessed according to the terms and conditions of the Company's billing agent.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 **Payment Arrangements (Cont'd)**

2.7.3 **Billing and Collection of Charges (Cont'd)**

The Customer is responsible for payment of all charges incurred by the Customer or other Users for services and facilities furnished to the Customer by the Company.

2.7.3.1 Non-recurring charges are due and payable within 30 days after the date of the invoice.

2.7.3.2 The Company shall present invoices for Recurring Charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within 30 days after the date of the invoice. When billing is based upon Customer usage, usage charges will be billed monthly for the preceding billing period.

2.7.3.3 When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

2.7.3.4 Billing of the Customer by the Company will begin on the Service Commencement Date, which is the day on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this Tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

2.7.3.5 A penalty cannot be applied to a prior penalty amount.

2.7.3.6 The Customer will be assessed a charge of twenty-five dollars ($25.00) for each check submitted by the Customer to the Company which a financial institution refuses to honor.

2.7.3.7 If service is disconnected by the Company in accordance with Section 2.7.4 following and later reinstalled, service will be subject to all applicable installation charges. If service is suspended by the Company and later restored, service will be subject to all applicable restoration charges.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 Payment Arrangements (Cont'd)

2.7.4 Billing Disputes

2.7.4.1 General

All bills are presumed accurate, and shall be binding on the Customer unless notice of the disputed charge(s) is received by the Company. For the purposes of this section, "notice" is defined as written notice to the Company, containing sufficient documentation to investigate the dispute, including the account number under which the bill has been rendered, the date of the bill, and the specific items on the bill being disputed.

The undisputed portions of the bill must be paid by the payment due date to avoid assessment of a late payment charge on the undisputed amount.

In the event that a billing dispute is resolved by the Company in favor of the Customer, any disputed amount withheld pending resolution of the billing dispute shall not be subject to the late payment charge.

In the event that a billing dispute is resolved in favor of the Company, the Customer shall pay the late payment charge.

2.7.4.2 Late Payment Charge

RCLEC will assess a late payment charge equal to 1.5% for any past due balance that exceeds thirty (30) days. A late payment penalty may be assessed only once on any bill for rendered services. Late payment penalties shall comply with Arizona Corporation Commission regulations and Arizona law.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 Payment Arrangements (Cont'd)

2.7.4 Billing Disputes (Cont'd)

2.7.4.3 Adjustments or Refunds to the Customer

1) In the event that the Company resolves the billing dispute in favor of a Customer who has withheld payment of the disputed amount pending resolution of the disputed bill, the Company will credit the Customer's account for the disputed amount in the billing period following the resolution of the dispute.

2) In the event that the Company resolves the billing dispute in favor of a Customer who has paid the total amount of the disputed bill, the Company will credit the Customer's account for any overpayment by the Customer in the billing period following the resolution of the dispute.

3) In the event that the Company resolves the billing dispute in favor of a Customer who has paid the total amount of the disputed bill but canceled the service, the Company will issue a refund of any overpayment by the Customer.

4) All adjustments or refunds provided by the Company to the Customer at the Customer's request, or provided by the Company to the Customer by way of compromise of a billing dispute, and which are accepted by the Customer, are final and constitute full satisfaction, settlement, and/or compromise of all of the Customer's claims for the billing period for which the adjustment or refund was issued.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 Payment Arrangements (Cont'd)

2.7.4 Billing Disputes (Cont'd)

2.7.4.4 Unresolved Billing Disputes

In the case of a billing dispute between the Customer and the Company for service furnished to the Customer, which cannot be settled to the mutual satisfaction of the Customer and the Company, the Customer is required to take the following course of action.

1) First, the Customer may request and the Company will provide an in-depth review of the disputed amount.

2) Second, if after investigation and review by the Company a disagreement remains as to the disputed amount, the Customer may file an appropriate complaint with:

Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007
(602) 542-4251
(800) 222-7000

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 Payment Arrangements (Cont'd)

2.7.5 Refusal or Discontinuance by Company

RCLEC may refuse or discontinue service under the following conditions provided that, unless otherwise stated, the Customer shall be given proper notification in accordance with Arizona statutes and regulations to comply with any rule or remedy any deficiency:

2.7.5.1 For non-compliance with or violation of any Arizona, municipal, or Federal law, ordinance or regulation pertaining to telephone service.

2.7.5.2 For use of telephone service or any other Company property for purposes other than that described in the application for service.

2.7.5.3 For neglect or refusal to provide reasonable access to RCLEC or its agents for the purpose of inspection and maintenance of equipment owned by RCLEC or agents.

2.7.5.4 For noncompliance with or violation of Commission regulation or RCLEC's rules and regulations on file with the Commission, provided ten days written notice is given before termination.

2.7.5.5 For nonpayment of bills, including bills for any of the Company's other communication services, provided that suspension or termination of service shall not be made without seven days written notice to the Customer.

2.7.5.6 Without notice in the event of Customer or Authorized User use of equipment in such a manner as to adversely affect the Company's equipment or service to others. Within twenty-four (24) hours after such termination, the Company shall send written notification to the Customer of the reasons for termination or refusal of service upon which the Company relies, and of the Customer's right to challenge the termination by filing a formal complaint with the Commission.

2.7.5.7 Without notice in the event of tampering with the equipment or services owned by RCLEC or its agents. Within twenty-four (24) hours after such termination, the Company shall send written notification to the Customer of the reasons for termination or refusal of service upon which the Company relies, and of the Customer's right to challenge the termination by filing a formal complaint with the Commission.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 Payment Arrangements (Cont'd)

2.7.5 Refusal or Discontinuance by Company (Cont'd)

2.7.5.8 Without notice in the event of unauthorized or fraudulent use of service. Whenever service is discontinued for fraudulent use of service, RCLEC may, before restoring service, require the Customer to make, at Customer's own expense, all changes in facilities or equipment necessary to eliminate illegal use and to pay an amount reasonably estimated as the loss in revenues resulting from such fraudulent use. Within twenty- four (24) hours after such termination, the Company shall send written notification to the Customer of the reasons for termination or refusal of service upon which the Company relies, and of the Customer's right to challenge the termination by filing a formal complaint with the Commission.

2.7.5.9 Without notice by reason of any order or decision of a court or other government authority having jurisdiction which prohibits Company from furnishing such services.

2.8 Ordering

2.8.1 General

A Service Order may be required by the Company to provide Customer with new Services or to provide changes to existing Services. Upon receipt of a properly completed Service Order, the Company will specify a Firm Order Commitment (FOC) and an estimated Service Date based on the type and quantity of Services requested.

2.8.2 Service Order Charge

A Service Order charge or application fee may be applied to all Customer requests for new, additional, changed or modified Services, except when a Company-initiated network reconfiguration requires a Customer's Service to be reconfigured.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.8 Ordering (Cont'd)

2.8.3 Notice to Company for Cancellation of Service

Pursuant to Arizona statute and regulations, a Customer may cancel an existing service by providing three (3) days written notice to the Company.

2.8.4 Cancellation of Service Order

Customer may cancel a Service Order for the installation of Service on any date prior to notification by the Company that Service is available for Customer's use or prior to the Service Date, whichever is later. The cancellation date is the date the Company receives written notice from the Customer that the Service Order is to be canceled. If a Customer is unable to accept Service within 30 calendar days of the original estimated Service Date, the Service Order will be cancelled and applicable charges will apply, as follows:

Prior to completion of Order	$250 per circuit
After completion of Plant Test Date, but prior to estimated Service Date plus Company expenses	$500 per circuit

2.8.5 Modification of Service Order

Customer may request a modification of its Service Order or Service prior to the Service Date. All modifications must be in writing. The Company, in its sole discretion, may accept a verbal modification from the Customer. The Company will make every reasonable effort to accommodate a requested modification when it is able to do so within the normal work force assigned to complete such Service Order within normal business hours. Charges for Service Order modifications may apply on a per occurrence basis.

2.8.6 Minimum Period of Service

The minimum period for which Services are provided and for which rates and charges are applicable is one year unless otherwise specified. When a Service is disconnected or discontinued prior to the expiration of the minimum period, charges are applicable, whether the Service is used or not.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.8 Ordering (Cont'd)

2.8.7 Customer Overpayment

The Company will pay interest on a Customer overpayment. Customer overpayment shall mean a payment to the Company in excess of the correct charges for service when caused by erroneous billing by the Company. The rate of interest shall be at the rate of 6%. Interest shall be paid from the date when the Customer overpayment was made, adjusted for any changes in the deposit interest rate or late payment penalty rate, and compounded monthly, until the date when the overpayment is refunded. No interest shall be paid on Customer overpayments that are refunded within thirty (30) days after such overpayment is received by the Company.

2.9 Allowances for Interruptions in Service

2.9.1 General

2.9.1.1 A credit allowance will be given when service is interrupted, except as specified in 2.9.1.4 following. A service is interrupted when it becomes inoperative to the Customer (e.g. the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this Tariff).

2.9.1.2 An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

2.9.1.3 If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.9 Allowances for Interruptions in Service (Cont'd)

2.9.1 General (Cont'd)

2.9.1.4 No credit allowance will be made for any interruption in service:

- Due to the negligence of or noncompliance with the provisions of this Tariff by any person or entity other than the Company, including but not limited to the Customer or other common carriers connected to the service of the Company;
- Due to the failure of power, equipment, systems, connections or services not provided by the Company;
- Due to circumstances or causes beyond the control of the Company;
- During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

2.9.2 Limitations of Allowances

2.9.2.1 During any period in which the Customer continues to use the service on an impaired basis;

2.9.2.2 During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

2.9.2.3 That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and

2.9.2.4 That was not reported to the Company within thirty (30) days of the date that service was affected.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.9 Allowances for Interruptions in Service (Cont'd)

2.9.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.9.4 Application of Credits for Interruptions in Service

2.9.4.1 Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

2.9.4.2 For calculating credit allowances, every month is considered to have thirty (30) days.

2.9.4.3 A credit allowance will be given for interruptions in service of 15 minutes or more. Two or more interruptions of 15 minutes or more during any one 24-hour period shall be considered as one interruption.

2.9.4.4 Interruptions of 24 Hours or Less
Interruption Period

Length of Interruption	To Be Credited
Less than 15 minutes	None
15 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.9 Allowances for Interruptions in Service (Cont'd)

2.9.4 Application of Credits for Interruptions in Service (Cont'd)

2.9.4.5 Continuous Interruption Over 24 Hours and Less Than 72 Hours. Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each three-hour period or fraction thereof that occurs following the expiration of the initial 24-hour period. No more than one full day's credit will be allowed for any period of 24 hours.

2.9.4.6 Interruptions Over 72 Hours. Interruptions over 72 hours will be credited 2 days for each full 24-hour period that occurs following the expiration of the initial 72-hour period. No more than 30 days credit will be allowed for any one-month period.

2.9.5 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equaling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit which has been subject to the outage or cumulative service credits.

2.10 Customer Liability for Unauthorized Use of the Network

2.10.1 Unauthorized Use of the Network

2.10.1.1 Unauthorized use of the Network occurs when: (1) a person or entity that does not have actual, apparent or implied authority to use the Network obtains the Company's services provided under this Tariff; or (2) a person or entity that otherwise has actual, apparent, or implied authority to use the Network makes fraudulent use of the Network to obtain the Company's services provided under this Tariff or uses specific services that are not authorized.

2.10.1.2 The following activities constitute fraudulent use:

1) Using the Network to transmit a message, locate a person, or otherwise give or obtain information, without payment for the service;

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.10 Customer Liability for Unauthorized Use of the Network (Cont'd)

2.10.1 Unauthorized Use of the Network (Cont'd)

2.10.1.2 (Cont'd)

2) Using or attempting to use the Network with the intent to avoid payment, either in whole or part, of any of the Company's Tariffed charges by either rearranging, tampering or making connections not authorized by this Tariff to any service components used to furnish the Company's services or using fraudulent means or devices, tricks, schemes, false or invalid numbers, false credit devices or electronic devices;

3) Using fraudulent means or devices, tricks, schemes, false or invalid numbers, false credit devices or electronic devices to defraud or mislead callers.

2.10.1.3 Customers are advised that use of telecommunications equipment and services, including that provided under this Tariff, carries a risk of various forms of telecommunications fraud (including, but not limited to, toll and PBX fraud perpetrated by Users who gain access to a Customer's facilities, account numbers, security or authorization codes, etc.). Customers should take all necessary steps to restrict access to their facilities, including the equipment and services provided hereunder, and to detect and prevent unauthorized use of the equipment and services provided by the Company under this Tariff.

2.10.2 Liability for Unauthorized Use

2.10.2.1 Except as provided for elsewhere in this Tariff, the Customer is responsible for payment of all charges for services provided under this Tariff furnished to the Customer or User. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by Users or other third parties, the Customer's employees or the public.

2.10.2.2 The Customer is liable for all costs incurred as a result of unauthorized use of the Network, including service charges and any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive charges.

2.10.2.3 The Customer is responsible for payment of any charges related to the suspension and/or termination of service, and any charges for reconnection of service, incurred as a result of unauthorized use of the Network.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.11 Application of Rates

The Company may institute volume and term arrangements, which involve discounts on recurring charges, or discounts or waivers of non-recurring charges. Discounts based on volume, term, or promotional arrangements will be available on arrangements where the Customer commits to a term contract of one year or longer.

Nonrecurring and monthly recurring charges apply for each Service furnished by the Company. Monthly recurring charges vary according to the time period for which the Customer commits to take the Service. Unless otherwise noted, these standard rate elements are used in calculating the monthly recurring charge for Services.

Because Type II Service prices are dependent upon another Service Provider's facilities, Type II Service will be provided at the discretion of the Company and priced on an Individual Case Basis, applied in a nondiscriminatory manner.

Transport Channel – Fixed

This rate element applies per channel for the transmission facility between the POPs associated with two Customer Premises, between a POP associated with the Customer Premises and a Company Point of Termination, or between two Company Points of Termination.

Variable Mileage

This rate element applies per channel for the number of miles (interoffice miles) between the two POPs that serve the terminal locations. Fractions of a mile are rounded up to the next whole mile before rates are applied.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.12 Reciprocal Compensation Arrangements

2.12.1 General

Reciprocal Compensation Arrangements are available to Other Network Providers (ONP) who are also certificated providers of local exchange service. Under a Reciprocal Compensation Arrangement, the Company compensates the ONP for Company traffic terminating on the ONP's network and the ONP compensates the Company for ONP traffic terminating on the Company's network.

The Company will negotiate Reciprocal Compensation Arrangements with ONPs on a case-by-case basis.

In the absence of negotiated arrangements between the Company and ONPs, the Company's Reciprocal Compensation Arrangements to ONPs will be no higher than those of the incumbent carrier for the region in which that incumbent is providing service.

Recognizing the technical constraints of cellular carriers and other smaller carriers where it is not technically possible for the Company to interconnect directly to each of another carrier's switching offices, the Company will pay charges when requested by the carrier for traffic that it terminates on such carrier's network as specified above until such time as that carrier interconnects, through its own facilities or a third carrier's facilities, directly to a Company switching office or negotiates alternative arrangements.

2.12.2 Measurement of Access Minutes and Determination of Balance

All traffic subject to a Reciprocal Compensation Arrangement will be considered terminating for usage measurement purposes, i.e., Company traffic is terminating to the ONP and ONP traffic is terminating to the Company. Usage measurement will begin when the Company entry switch receives answer supervision from the Company's end user's switching office or from the ONP's point of termination, whichever occurs later. Usage measurement will end when the Company's entry switch receives disconnect supervision from the Company's end user's office or from the ONP's point of termination, whichever occurs first.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.13 Inspection, Testing and Adjustment

2.13.1 The Company may, upon reasonable notice, make such tests and inspections as may be necessary to determine whether the terms and conditions of this Tariff are being complied with in the installation, operation or maintenance of the Customer's or the Company's facilities or equipment relating to the Service. The Company may interrupt Service at any time, without penalty or liability, due to the departure from or reasonable suspicion of the departure from any of these terms and conditions.

2.13.2 The Customer shall be responsible for making arrangements or obtaining permission for safe and reasonable access for Company employees or agents of the Company to enter the End User Premises at any reasonable hour for the purpose of inspecting, repairing, testing or removing any part of the Company's facilities or equipment.

2.13.3 Upon reasonable notice, the facilities or equipment provided by the Company shall be made available to the Company for such tests and adjustments as may be necessary for maintenance in a condition satisfactory to the Company. No interruption allowance shall be granted for the time during which such tests and adjustments are made, unless such interruption exceeds 24 hours in length and is requested by the Customer.

2.14 Reconnection Charge

A reconnection fee of $50.00 per occurrence, per account, may be charged when service is re-established for Customers who have been disconnected for non-payment, and is payable at the time that the restoration of suspended service and facilities is arranged.

2.15 Operator Service Rules

The Company will enforce the operator service rules specified by the Commission and by the Federal Communications Commission.

2.16 Access to Telephone Relay Services

Where required by the Commission, the Company will participate in telephone relay services for handicapped and/or hearing impaired end users, and will comply with all regulations and requirements. The Company shall impose any monthly surcharge or any other related charge upon its local exchange telecommunications Customers as may be required by Arizona law.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.17 Access to Carrier of Choice

End users of the Company's local service shall have the right to select the interexchange telecommunications service provider (IXC) of their choice. The IXC should request confirmations/ verifications of choice from its Customers no later than the date of submission of its first bill to the Customer. RCLEC should maintain signed letters of agency or confirmations of choice on file for use in dispute resolution.

2.18 Directory Listings

2.18.1 The Company does not publish a directory of Customer listings. The Company, however, does arrange for the Customer's main billing number to be placed in the directory or directories of the incumbent local exchange carrier.

2.18.2 The rates and regulations specified herein for directory listings apply only to the alphabetical section of the directory. Listings are intended solely for the purpose of identifying Customer's telephone number and as an aid to the use of telephone service.

2.18.3 The listings of Customers, either without charge or at the rate specified within this tariff for other listings are arranged alphabetically and are not intended for special prominence of arrangement. In accepting listings as requested by Customers or prospective customers, the Company will not be a party to controversies between Customers as a result of the publication of such listings in the directories.

2.18.4 Listings must conform to the Company's specifications with respect to the directories. The Company reserves the right to reject listings when in, its sole judgment, such listings would violate the integrity of company records and the directories, confuse individuals using the directory, or when the Customer cannot provide satisfactory evidence that Customer is authorized to do business as requested.

2.18.5 The Company reserves the right to limit the length of any listing to one line in the directory by use of abbreviations when, in its sole judgment, the clarity of the listing and the identification of the Customer is not impaired.

2.18.6 Generally, a business listing consists of a name or dual name, a designation descriptive of the Customer's business if not self-explanatory, the address, and the business telephone number. The main listing is ordinarily the name of the individual, firm or corporation which contracts for the service or the name under which a business is regularly conducted.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.19 Universal Emergency Telephone Number Service (911, E911)

2.19.1 RCLEC does not provide 911 services for its wholesale customers. The customer is responsible for providing 911 services.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 3 - SERVICE DESCRIPTIONS

3.1 Wholesale Transit Services

Wholesale Transit Service is a private line transport that provides connectivity from a Company Gateway at one of its Carrier Hotels through an Internet Protocol Open Shortest Path First (OSPF) Ethernet path, Direct Circuit, Channel, wavelength division multiplexer, or sub path thereof specifically dedicated to the use of a service provider as a Customer to one of the Customer's End User Premises. Wholesale Transit Services provide connectivity on a metropolitan Ethernet basis. Wholesale Transit Services are priced based on bandwidth and QoS Conditioning with no usage sensitive cost element.

Wholesale Transit Services described in this section allow the Company to extend Wholesale Local Loop Services from a Company Carrier Hotel Gateway to an End User Premises. Both Wholesale Transit Services and Wholesale Local Loop Services are dependent upon the availability of facilities and will be provided at the discretion of the Company and priced on an Individual Case Basis, applied in a nondiscriminatory manner.

The following Wholesale Transit Services are offered pursuant to this Tariff:

T- I (Trunk, level 1 - 1.544 Mbps)
DS3 (Digital Signal, level 3 - 44.736 Mbps)
OC3 (Optical Carrier, level 3 - 155.52 Mbps)
OC 12 (Optical Carrier, level 12, SONET channel - 622.08 Mbps)
OC48 (Optical Carrier, level 48, SONET channel - 2,488.32 Mbps)
OC 192 (Optical Carrier, level 192, SONET channel -9.953 Gbps)

Ethernet Transit Service

Each Wholesale Transit Service represents transmission capacity and protocol specific to the ordered Service. Company does not guarantee the use of equipment specifically dedicated to any Customer or End User. Company reserves the right to limit the number of Wholesale Transit Services on any Service arrangement based upon engineering considerations.

SECTION 3 - SERVICE DESCRIPTIONS (CONT'D)

3.1 Wholesale Transit Services (Cont'd)

Wholesale Transit Services may be provided either as Type I or Type II Services, depending upon the availability of facilities. Type I Service rates apply when both endpoints of the channel are served by the Company's network. Type II Service rates apply when the endpoints of the channel are served by another Service Provider's network.

3.1.1 T-1 Service
T-1 is composed of digital channels provided at 1.544 Mbps for the transmission of one-way and two-way communication.

3.1.2 DS3
DS3 is composed of digital channels provided at 44.736 Mbps for the transmission of one-way and two-way communication.

3.1.3 OC3 Service
OC3 provides for the direct electrical-to-optical mapping of the STS-3 signal at 155.52 Mbps with frame synchronous scrambling.

3.1.4 OC12 Service
OC 12 provides for the direct electrical-to-optical mapping of the STS-48 (SONET) channel of 622.08 Mbps with frame synchronous scrambling.

3.1.5 OC48 Service
OC48 provides for the direct electrical-to-optical mapping of the STS-48 (SONET) channel of 2,488.32 Mbps with frame synchronous scrambling.

3.1.6 OC192 Service
OC192 provides for the direct electrical-to-optical mapping of the STS-192 (SONET) channel of 9.953 Gbps with frame synchronous scrambling.

SECTION 3 - SERVICE DESCRIPTIONS (CONT'D)

3.1 Wholesale Transit Services (Cont'd)

3.1.7 Ethernet Transit Service

Ethernet Transit Service is an optically switched high-speed fiber-based data service that allows a Customer to connect two Company Carrier Hotel Gateway or Exchange Points using packet-based technologies. Ethernet Transit Service is a flexible, easy to use, transport service that uses established Ethernet transport. Ethernet Transit Service allows Customer to connect Customer's equipment located at Company Carrier Hotel or Exchange Points with Company Wholesale Transit Services or other Customer equipment collocated at other Company Gateway locations using native Ethernet protocol. Ethernet Transit Service supports transmission speed from 1 Gbps to 100 Gbps. Ethernet Transit Service provides Customer traffic segmentation enabling private and secure transfer of Ethernet frames over a shared network. Ethernet Transit Service is offered using either the IPv4 or IPv6 protocol.

3.2 Wholesale Local Loop Service

Wholesale Local Loop Service is a private line transport that provides connectivity to two or more Company Gateways at its Carrier Hotels through a direct circuit, channel, wavelength division multiplexer, or sub path thereof specifically dedicated to the use of a Service Provider as a Customer. Wholesale Local Loop Service provides connectivity on a Private Metro Ethernet Path or SONET add/drop multiplexer basis. Wholesale Local Loop Service is priced based on distance, bandwidth, and multiplexing technique with no usage sensitive cost element.

Wholesale Transit Services described in Section 2.1 of this Tariff allows the Company to extend Wholesale Local Loop Services from a Company Carrier Hotel Gateway to an End User Premises. Both Wholesale Transit Services and Wholesale Local Loop Services are dependent upon the availability of facilities and will be provided at the discretion of the Company and priced on an Individual Case Basis, applied in a nondiscriminatory manner.

41SECTION 3 - SERVICE DESCRIPTIONS (CONT'D)

3.2 Wholesale Local Loop Service (Cont'd)

The following Wholesale Local Loop Services are offered pursuant to this Tariff:

T-1 (Trunk, level 1 - 1.544 Mbps)
DS3 (Digital Signal, level 3 - 44.736 Mbps)
OC3 (Optical Carrier, level 3 - 155.52 Mbps)
OC 12 (Optical Carrier, level 12, SONET channel - 622.08 Mbps)
OC48 (Optical Carrier, level 48, SONET channel - 2,488.32 Mbps)
OC192 (Optical Carrier, level 192, SONET channel -9.953 Gbps)

Ethernet Transit Service

Each Wholesale Local Loop Service represents transmission capacity and protocol specific to the ordered Service. Company does not guarantee the use of equipment specifically dedicated to any Customer. Company reserves the right to limit the number of Wholesale Local Loop Services on any Service arrangement based upon engineering considerations.

Wholesale Local Loop Services may be provided either as Type I or Type II Services, depending upon the availability of facilities. Type I Service rates apply when both endpoints of the channel are served by the Company's network. Type II Service rates apply when the endpoints of the channel are served by another Service Provider's network.

3.2.1 T-1 Service

T-1 is composed of digital channels provided at 1.544 Mbps for the transmission of one-way and two-way communication.

3.2.2 DS3

DS3 provides digital channels at 44.736 Mbps for the transmission of one-way and two-way communication.

3.2.3 OC3 Service

OC3 provides for the direct electrical-to-optical mapping of the STS-3 signal at 155.52 Mbps with frame synchronous scrambling.

SECTION 3 - SERVICE DESCRIPTIONS (CONT'D)

3.2 Wholesale Local Loop Service (Cont'd)

3.2.4 OC12 Service

OC 12 provides for the direct electrical-to-optical mapping of the STS-48 (SONET) channel of 622.08 Mbps with frame synchronous scrambling

3.2.5 OC48 Service

OC48 provides for the direct electrical-to-optical mapping of the STS-48 (SONET) channel of 32,488.32 Mbps with frame synchronous scrambling.

3.2.6 OC192 Service

OC192 provides for the direct electrical-to-optical mapping of the STS-192(SONET) channel of 9.953 Gbps with frame synchronous scrambling.

3.2.7 Ethernet Transit Service

Ethernet Transit Service is an optically switched high-speed fiber-based data service that allows a Customer to connect two Company Carrier Hotel Gateway or Exchange Points using packet-based technologies. Ethernet Transit Service is a flexible, easy to use, transport service that uses established Ethernet transport technology. Ethernet Transit Service allows Customer to connect Customer's equipment located at Company Carrier Hotel or Exchange Points with Company Wholesale Transit Services or other Customer equipment collocated at other Company Gateway locations using native Ethernet protocol. Ethernet Transit Service supports transmission speed from 1 Gbps to 100 Gbps. Ethernet Transit Service provides Customer traffic segmentation enabling private and secure transfer of Ethernet frames over a shared network. Ethernet Transit Service is offered using either the IPv4 or IPv6 protocol.

3.2.8 Individual Case Basis (ICB) Arrangements

Services and arrangements shall occasionally be developed on an individual case basis in response to requests of the Customer for unique services or arrangements or for unique or specially-bid pricing. Rates and charges associated with such services or arrangements may differ from those contained in this tariff for the basic services and arrangements identified herein.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 3 - SERVICE DESCRIPTIONS (CONT'D)

3.3 Miscellaneous Services (Cont'd)

3.3.9 PIC Change Charge

The customer is charged $5.00 per account for each request to change their carrier selection.

An authorized PIC Change Charge of $50.00 per occurrence will be billed to the Telephone Company who requested an authorized PIC change charge.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 4 – RATES

4.1 Application of Rates

The Company may institute volume and term arrangements, which involve discounts on recurring charges, or discounts or waivers of non-recurring charges. Discounts based on volume, term, or promotional arrangements will be available on arrangements where the Customer commits to a term contract of one year or longer.

Nonrecurring and monthly recurring charges apply for each Service furnished by the Company. Monthly recurring charges vary according to the time period for which the Customer commits to take the Service. Unless otherwise noted, these standard rate elements are used in calculating the monthly recurring charge for Services.

Because Type II Service prices are dependent upon another Service Provider's facilities, Type II Service will be provided at the discretion of the Company and priced on an Individual Case Basis, applied in a nondiscriminatory manner.

Transport Channel - Fixed
This rate element applies per channel for the transmission facility between the POPs associated with two Customer Premises, between a POP associated with the Customer Premises and a Company Point of Termination, or between two Company Points of Termination.

Variable Mileage
This rate element applies per channel for the number of miles (interoffice miles) between the two POPs that serve the terminal locations. Fractions of a mile are rounded up to the next whole mile before rates are applied.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 4 – RATES (CONT'D)

4.2 Wholesale Transit Rates

	MINIMUM	MAXIMUM	CURRENT RATE
T-1			
MRC – Fixed	$ 80.00	$ 140.00	$ 120.00
MRC – Per Mile	$ 5.00	$ 15.00	$ 10.00
NRC	$1,000.00	$2,000.00	$1,500.00
DS3			
MRC – Fixed	$1,000.00	$2,000.00	$1,400.00
MRC – Per Mile	$ 20.00	$ 50.00	$ 40.00
NRC	$1,500.00	$2,500.00	$2,000.00
OC3			
MRC – Fixed	$3,000.00	$5,000.00	$4,000.00
MRC – Per Mile	$ 80.00	$ 120.00	$ 100.00
NRC	$2,000.00	$4,000.00	$3,000.00
OC12			
MRC – Fixed	$5,000.00	$7,000.00	$6,000.00
MRC – Per Mile	$ 120.00	$ 250.00	$ 150.00
NRC	$3,000.00	$5,000.00	$4,000.00
OC48			
MRC – Fixed	$7,000.00	$9,000.00	$8,000.00
MRC – Per Mile	$ 100.00	$ 300.00	$ 200.00
NRC	$4,000.00	$6,000.00	$5,000.00
OC192			
MRC – Fixed	$9,000.00	$11,000.00	$10,000.00
MRC – Per Mile	$ 150.00	$ 350.00	$ 250.00
NRC	$5,000.00	$ 8,000.00	$ 7,000.00

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 4 – RATES (CONT'D)

4.2 Wholesale Transit Rates (Cont'd)

	MINIMUM	MAXIMUM	CURRENT RATE
Ethernet Transit			
MRC – Fixed			
10GbE	**$1,000.00**	**$3,000.00**	**$2,000.00**
100GbE	**$2,000.00**	**$4,000.00**	**$3,000.00**
MRC/per mile			
10GbE	**$ 10.00**	**$ 30.00**	**$ 20.00**
100GbE	**$ 20.00**	**$ 40.00**	**$ 30.00**
NRC			
10GbE	**$1,500.00**	**$3,000.00**	**$2,000.00**
100GbE	**$3,000.00**	**$5,000.00**	**$4,000.00**

SECTION 4 – RATES (CONT'D)

4.3 Wholesale Local Loop Service

	MINIMUM	MAXIMUM	CURRENT RATE
T-1			
MRC – Fixed	$ 80.00	$ 140.00	$ 120.00
MRC – Per Mile	$ 5.00	$ 15.00	$ 10.00
NRC	$1,000.00	$2,000.00	$1,500.00
DS3			
MRC – Fixed	$1,000.00	$2,000.00	$1,500.00
MRC – Per Mile	$ 30.00	$ 50.00	$ 40.00
NRC	$1,500.00	$2,500.00	$2,000.00
OC3			
MRC – Fixed	$4,000.00	$6,000.00	$5,000.00
MRC – Per Mile	$ 100.00	$ 300.00	$ 200.00
NRC	$2,000.00	$4,000.00	$3,000.00
OC12			
MRC – Fixed	$5,000.00	$7,000.00	$6,000.00
MRC – Per Mile	$ 120.00	$ 250.00	$ 150.00
NRC	$3,000.00	$5,000.00	$4,000.00
OC48			
MRC – Fixed	$7,000.00	$9,000.00	$8,000.00
MRC – Per Mile	$ 100.00	$ 300.00	$ 200.00
NRC	$4,000.00	$6,000.00	$5,000.00
OC192			
MRC – Fixed	$9,000.00	$11,000.00	$10,000.00
MRC – Per Mile	$ 150.00	$ 350.00	$ 250.00
NRC	$5,000.00	$ 8,000.00	$ 7,000.00

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

SECTION 4 – RATES (CONT'D)

4.3 Wholesale Local Loop Service (Cont'd)

	MINIMUM	MAXIMUM	CURRENT RATE
Ethernet Transit			
MRC – Fixed			
10GbE	**$1,000.00**	**$3,000.00**	**$2,000.00**
100GbE	**$2,000.00**	**$4,000.00**	**$3,000.00**
MRC/per mile			
10GbE	**$ 10.00**	**$ 30.00**	**$ 20.00**
100GbE	**$ 30.00**	**$ 50.00**	**$ 40.00**
NRC			
10GbE	**$1,500.00**	**$3,000.00**	**$2,000.00**
100GbE	**$3,000.00**	**$5,000.00**	**$4,000.00**

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

INTEREXCHANGE TELECOMMUNICATIONS SERVICES

RCLEC, INC.
1400 Fashion Island Blvd., 7th Floor
San Mateo, CA 94404

TARIFF NO. 2

REGULATIONS AND SCHEDULE OF CHARGES APPLICABLE TO INTRASTATE INTEREXCHANGE SWITCHED SERVICES FURNISHED BY RCLEC, INC.

This Tariff contains the rates, terms and conditions applicable to switched intrastate interexchange services offered by RCLEC, Inc. within the State of Arizona. The provisions of this Tariff apply only to the Intrastate Interexchange Services described in this Tariff.

TABLE OF CONTENTS

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

INTRASTATE INTEREXCHANGE SERVICES

CHECK SHEET

Sheets 1 through 26, inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this sheet.

SHEET	REVISION
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original
10	Original
11	Original
12	Original
13	Original
14	Original
15	Original
16	Original
17	Original
18	Original
19	Original
20	Original
21	Original
22	Original
23	Original

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

TARIFF FORMAT

Page Numbering - Page numbers appear in the upper right hand corner of the page. Pages are numbered sequentially. From time to time new pages may be added to the tariff. When a new page is added between existing pages, a decimal is added to the preceding page number. For example, a new page added between Pages 3 and 4 would be numbered 3. 1.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

CONCURRING CARRIERS
None

CONNECTING CARRIERS
None

OTHER PARTICIPATING CARRIERS
None

EXPLANATION OF SYMBOLS

Changes to this Tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

(C) To signify changed regulation

(D) To signify discontinued rate or regulation

(I) To signify an increase

(L) To signify matter relocated without change

(N) To signify new rate or regulation

(R) To signify reduction

(S) To signify reissued matter

(T) To signify change in text but no change in rate or regulation

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

APPLICATION OF TARIFF

This Tariff contains the rates, terms and conditions of service applicable to the furnishing of InterLATA and IntraLATA interexchange communications services by RCLEC, Inc. throughout the State of Arizona.

This Tariff is available for public inspection during normal business hours at the main office of RCLEC, Inc., located at 1400 Fashion Island Blvd., 7^{th} Floor, San Mateo, CA 94404.

SECTION 1 - TERMS AND ABBREVIATIONS

Access Line - A facility arrangement which connects Customer's location to Company's POP.

Available/Availability - Condition in which Company has the facilities necessary to provide Service and such facilities are not already committed to other parties or other Customers and are accessible for Service to Customer, as determined by the Company, in its sole discretion.

Commission - The Arizona Corporation Commission (ACC).

Company or Carrier - RCLEC, Inc. ("RCLEC") unless otherwise clearly indicated by the context.

Customer – The natural person or legal entity which orders Service and is therefore responsible for the payment of charges due as a result of using the Service and for compliance with the Company's Tariff. The Customer may be a certified reseller of telecommunications services who, under the terms of a Service Agreement, orders or uses Service and is therefore responsible for the payment of charges due and for compliance with Carrier's Tariff regulations.

Individual Case Basis (ICB) - ICB determinations involve situations where complex Customer-specific Company arrangements are required to satisfactorily serve the Customer. The nature of such Service requirements makes it difficult or impossible to establish general tariff provisions for such circumstances. When it becomes possible to determine specific terms and conditions for such offerings, they will be offered pursuant to such terms and conditions.

Interexchange Service - Interexchange Service means that a portion of a communications channel between a Company-designated Point-of-Presence in one exchange and a Point-of-Presence in another exchange.

Reseller - A Customer which purchases Service from the Company through a Service Agreement and resells Service to its own End Users. End Users of a Reseller are not Customers of the Company. A Reseller must be authorized to operate in the State before it can resell services to its End Users.

SECTION 1 - TERMS AND ABBREVIATIONS (CONT'D)

Service – RCLEC's Interexchange Services as described in this Tariff, as modified from time to time.

Service Agreement - An agreement between Company and Customer which, subject to the terms and conditions of this Tariff, defines the relationship between Carrier and Customer.

Service Area - The geographic area in which Customer or its End Users may access and use Service.

Tariff - The Company's Arizona Intrastate Tariff No. 2, and effective revisions thereto filed by the Company with the Commission.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of Company and Limitations of Services

2.1.1 The Company's services and facilities are furnished for communications originating at specified points within the state of Arizona under terms of this tariff.

The Company installs, operates, and maintains the communications services provided herein in accordance with the terms and conditions set forth under this tariff. It may act as the customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the customer, to allow connection of a customer's location to the Company's network. The customer shall be responsible for all charges due for such service arrangement.

The Company's services and facilities are provided on a monthly basis unless ordered on a longer term basis, and are available twenty-four hours per day, seven days per week. For the purpose of computing charges in this tariff, a month is considered to have 30 days.

The Company does not offer Inter- and Intrastate services on a stand-alone basis and these services are provided only with services found in the Company's Arizona CC Tariff No. 1 and Section 3 in this Tariff.

2.1.1.1 Customers may be required to enter into written Service Orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

2.1.1.2 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the then-current rates unless terminated by either party upon thirty (30) days' written notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the Service Order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of Company and Limitations of Services (Cont'd)

2.1.2 The Company reserves the right to discontinue furnishing Service, or to limit the use of Service, when necessitated by conditions beyond its control, when Customer is using Service in violation of the law or in violation of the provisions of this Tariff, or for non-payment by Customer.

2.1.3 Service provided under this Tariff is directly controlled by Company, and Customer may not transfer or assign the use of Service, except with the prior written consent of Company. Such transfer or assignment shall only apply where there is no interruption in the use or location of Service, and all regulations and conditions contained in this Tariff as well as all conditions for Service, shall apply to all such permitted assignees or transferees.

2.1.3 The Customer shall not use nor permit others to use the Service in a manner that could interfere with services provided to others or that could harm the facilities of the Company or others.

2.1.5 Service furnished by RCLEC may be connected with the services or facilities of other carriers. Customer is responsible for all charges billed by other carriers in connection with the use of Service. Any special equipment or facilities necessary to achieve compatibility between carriers are the sole responsibility of Customer.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.2 Resale of Company Services

2.2.1 In addition to the other provisions in this Tariff, a Customer reselling Service shall be responsible for all interaction and interface with its own subscribers or customers. The reselling of Service by a Customer or reselling of Service with enhancements provided by Customer shall not create a partnership or joint venture between Company and Customer nor result in a joint service offering to any third parties by either Company or the Customer.

2.2.2 Notwithstanding the resale of Service by Customer and regardless of the Company's knowledge of same, the Customer remains liable for all obligations under this Tariff. The Company shall have no liability to any person or entity other than the Customer and only as set forth in Section 2.3.

2.3 Liability of the Company

2.3.1 The Company's liability arising out of mistakes, interruptions, omissions, delays, errors, or defects in the transmission occurring in the course of furnishing service or facilities, and not caused by the negligence of its employees or its agents, in no event shall exceed an amount equivalent to the proportionate charge to the customer for the period during which the aforementioned faults in transmission occur, unless ordered by the Commission.

2.3.2 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.3 Liability of the Company (Cont'd)

2.3.3 The Company shall be indemnified and held harmless by the customer against:

(A) Claims for libel, slander, or infringement of copyright arising out of the material, data, information, or other content transmitted over the Company's facilities.

(B) All other claims arising out of any act or omission of the customer in connection with any service or facility provided by the Company.

(C) The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.

(D) The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided equipment or facilities.

(E) The Company does not guarantee nor make any warranty with respect to installations it provides for use in a hazardous environment. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, condition, location, or use of any installation so provided.

(F) The Company is not liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.

(G) The Company shall be indemnified, defended and held harmless by the Customer against any claim, loss or damage arising from Customer's use of services, involving claims for libel, slander, invasion of privacy, or infringement of copyright arising from the Customer's own communications.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.4 Cancellation of Service by Customer

2.4.1 Reseller Customers may order Service from Company pursuant to the terms and conditions of a Service Agreement. Any cancellation or termination of Service is subject to the terms and conditions of that Service Agreement.

2.4.2 If Customer, either on behalf of itself, orders Service from the Company which requires special construction or facilities for Customer's, and then cancels its order before Service begins, a charge shall be made to Customer for the non-recoverable portions of the expenditures or liabilities incurred on behalf of Customer by the Company.

2.4.3 If Customer terminates Service prior to the end of the term specified in the Service Agreement, Customer shall be responsible for all charges incurred to the date of termination, including, but not limited to, all charges to the Company by other carriers for Service provided Customer, and any applicable cancellation or termination charges specified in the Service Agreement.

2.5 Cancellation for Cause by Company

2.5.1 For nonpayment by Customer of any undisputed sum owing to the Company for more than 30 days, or for violation by Customer of any of the provisions governing the furnishing of Service under this Tariff or the Service Agreement, the Company may, after ten (10) days written notification to Customer of such nonpayment or violation and forthcoming termination therefor, without incurring any liability, immediately cancel or discontinue the furnishing of such Service. Customer shall be deemed to have canceled Service as of the date of such termination and shall be liable for any cancellation charges as set forth in this Tariff.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.5 Cancellation for Cause by Company (Cont'd)

2.5.2 Without incurring any liability, the Company may cancel Service prior to commencement or discontinue the furnishing of Service to Customer immediately and without notice if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or services or under any of the following circumstances:

(a) if Customer refuses to furnish or provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of service, or its planned use of service;

(b) for noncompliance with any of the provisions of this Tariff;

(c) if the Customer is using the Service in violation of any applicable law or regulation.

(d) if such actions are reasonably appropriate to avoid violation of applicable law; or

(e) if there is a reasonable risk that criminal, civil or administrative proceedings or investigations based upon the transmission contents shall be instituted against Company.

2.5.3 The discontinuance of Service by the Company pursuant to this section does not relieve the Customer of any obligations to pay the Company for charges accrued for Service which has been furnished up to the time of discontinuance nor does it relieve the Customer of applicable cancellation charges. The remedies set forth herein shall not be exclusive and the Company shall at all times be entitled to all rights available to it under either law or equity.

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.6 Billing and Payment for Service

2.6.1 Responsibility for Charges

The Customer is responsible for payment of all charges for Services furnished to the Customer. This includes payment for Services specifically requested by the Customer. This responsibility is not changed due to any use, misuse, or abuse of the Customer's Service or Customer provided equipment by third parties, the Customer's employees, or the public. A Customer whose Service has been discontinued for non-payment of bills shall be required to pay any unpaid balance due to Company before Service is restored.

2.6.2 Payment Arrangements

2.6.2.1 All payments due by the Customer shall be remitted and payable to the Company or any billing agent duly authorized and designated by the Company to receive such payments.

2.6.2.2 Service is provided and billed on a monthly basis. Usage sensitive charges are billed in arrears and fixed monthly recurring charges, if any, are billed one month in advance. Unless required in advance, installation charges and other non-recurring charges shall be due on the first day of the month following the month in which the Service was provided.

2.6.2.3 The security of Authorization Codes used by Customer or its End Users are the responsibility of the Customer. All calls placed using such Authorization Codes or using facilities owned or controlled by Customer or its End Users shall be billed to Customer and must be paid by Customer.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.6 Billing and Payment for Service (Cont'd)

2.6.3 Late Payment Fee

Bills are due and payable upon receipt. In the event Customer fails to pay or remit payment in full to the proper address for Services billed by the Company or authorized billing agent on or before thirty (30) days after the Due Date, Customer shall also pay a late fee in the amount of the lesser of one and one-half percent (1.5%) of the unpaid balance per month or the maximum lawful rate under applicable state law.

2.6.4 Return Check Charge

A return check charge of $25.00 will be assessed for checks made payable to the Company and returned for insufficient funds. For service billed on behalf of the Company, any applicable return check charges will be assessed according to the terms and conditions of the Company's billing agent.

2.6.5 Advance Payments and Deposits

The Company does not collect advance payments or require deposits on intrastate interexchange services.

2.6.6 Disputed Charges

Disputes with respect to charges must be presented to the Company in writing within 30 days after the Due Date or such invoice shall be deemed to be correct and binding on the Customer. In instances of a dispute, the Customer is required to pay the undisputed portion of the bill in its entirety within 30 days after the Due Date. For all Customers, resolution of disputes will be governed by the applicable Service Agreement.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.7 Taxes and Fees

2.7.1 Service may be subject to State and/or local taxes (e.g. gross receipts tax, sales tax, and municipal utilities tax) and/or fees (e.g. intrastate access charges and contributions to the State Universal Service program), if Service originates and terminates in the State. An amount equal to such taxes and fees shall be charged to the Customer in addition to the charges stated in this Tariff. All charges related to such taxes and fees shall each be shown as a separate line item on the Customer's monthly invoice.

2.7.2 Service shall not be subject to taxes for a given jurisdiction if Customer provides the Company with written verification, acceptable to the Company and to the relevant taxing jurisdiction, that Customer has been granted a tax exemption. Service shall also not be subject to contribution to the State Universal Service program if Customer provides the Company with written verification, acceptable to the Company and to the State Commission, that the Service will be resold by Customer and that the revenues from such resale shall be subject to the State Universal Service program's contribution requirements.

2.7.3 The Company may also include among such fees and surcharges any Primary Interexchange Carrier (PIC) charges charged against the Company by a Local Access Provider, as well as any other Local Access charges, whether for originating or terminating Local Access, charged against the Company for originating or terminating intrastate interexchange communications.

2.8 Inspection, Testing and Adjustments

2.8.1 The Company may, upon notice, make such tests and inspections as may be necessary to determine that the requirements of this Tariff are being complied with in the installation, operation or maintenance of Customer's or the Company's equipment. The Company may interrupt the Service at any time, without penalty or liability to the Company, because of departure from any of these requirements.

2.8.2 Upon reasonable notice, the facilities provided by the Company shall be made available to the Company for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance shall be granted for the time during which such tests and adjustments are made.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.9 Terminal Equipment

Service may be used with or terminated in terminal equipment or communications systems, such as a PBX or key telephone system, provided by Customer or its End User. Such terminal equipment or communications systems shall be furnished by and maintained at the expense of Customer or its End User, except as otherwise provided. Customer or its End User is also responsible for all costs at its premises incurred in the use of Service, including but not limited to equipment, wiring, electrical power, and personnel. When such terminal equipment or communications systems are used, they shall in all respects comply with the generally accepted minimum protective standards of the telecommunications industry as endorsed by the Federal Communications Commission.

2.10 Refunds or Credits for Interruptions in Service

2.10.1 No credits or refunds for interruptions of Service shall be made for:

(a) Interruptions caused by the negligence or willful misconduct (including the provision of inaccurate information) of the Customer or its End Users.

(b) Interruptions during any period which the Company or its agents are not afforded access to any Customer premise where Service is originated or terminated.

(c) Interruptions during any period when the Customer or End-User has released the Service to the Company for maintenance or rearrangement purposes, or for the implementation of Service.

(d) Interruptions during periods when the Customer elects not to release the Service for testing or repair and continues to use the Service on an impaired basis.

(e) Interruptions not reported to the Company.

(f) Interruptions caused by outages or failure of Local Access provided by a Local Access Provider.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.10 Refunds or Credits for Interruptions (Cont'd)

2.10.2 It shall be the obligation of Customer to notify Company immediately of any interruption of Service (as defined in the applicable Service Agreement) for which a credit is desired. If Customer reports an interruption in Service to Company and the affected Service is not restored (as defined in the applicable Service Agreement) within two hours of such report, Customer shall, upon request directed to the Customer's designated customer service representative, receive a credit at the rate of 1/720 of the monthly recurring charges applicable to Service directly affected by such interruption for each hour or fraction thereof, over the initial two hours, during which service is interrupted. No credit will be given for interruptions of less than two hours in duration. The formula used for computation of credits is as follows:

Credit = A/ 720 x B

A = Interruption time in hours or fraction thereof (must be over 2 hours)
B = total monthly recurring charge for the affected service.

2.10.3 Notice of Interruption should be reported by the Customer to the Company's Network Control Center or other location designated by Company. An interruption ends when the Service is restored. If the Customer reports the Service to be inoperative but declines to release it for testing and repair, the Service shall be deemed to be impaired, but not subject to an interruption nor corresponding credit as provided in Section 2.10.2.

2.10.4 If the Customer elects to use another means of transmission during the period of interruption, the Customer is solely responsible for payment of the charges for the alternate transmission service used.

2.10.5 The credit provided in Section 2.10.2 is Customer's sole and exclusive remedy for any interruption in the Service.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 2 - RULES AND REGULATIONS (CONT'D)

2.11 Restoration of Service

The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations to the extent it is applicable, which specifies the priority system for such activities.

2.12 Other Terms and Conditions

2.12.1 A Customer shall not use any service mark or trademark of the Company or refer to the Company in connection with any product, equipment, promotion, or publication of the Customer without prior written approval of the Company.

2.12.2 In the event suit is brought or an attorney is retained by the Company to enforce the terms of this Tariff, the Company shall be entitled to recover, in addition to any other remedy, reimbursement for reasonable attorneys' fees, court costs, costs of investigation and other related expenses incurred in connection therewith.

2.12.3 Company shall assess a Reseller Customer a $50.00 Unauthorized Carrier Change Charge (UCCC) for each Primary Interexchange Carrier (PIC) change made without prior valid authorization which results in the Company being named in a complaint filed with a state or federal regulatory or judicial body. Continued acts of unauthorized PIC changes by any Reseller Customer shall be considered grounds for refusing to provide or for discontinuing Service to that Reseller Customer.

2.12.4 Company, when acting at the Customer's request and/or as Customer's authorized agent, shall make reasonable efforts to arrange for special Service requirements such as the provision of Off-Net Circuits. Due to the specialized nature of such an arrangement, however, such arrangement may be provided through an ICB.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 3 – DESCRIPTION OF SERVICE

3.1 General

The Company offers IntraLATA and InterLATA long distance services. The Customer's total monthly use of the Company's service is charged at the applicable rates per minute set forth herein, in addition to any monthly service charges. None of the service offerings are time-of-day sensitive.

3.1.1 Description

IntraLATA toll service is furnished for communication between telephones in different local calling areas within a particular LATA in accordance with the regulations and schedules of charges specified in this tariff. The toll service charges specified in this section are in payment for all service furnished between the calling and called telephone, except as otherwise provided in this tariff.

3.2 Timing of Calls

3.2.1 Long distance usage charges are based on the actual usage of the Company network. Chargeable time begins when a connection is established between the Calling Station and the Called Station. Chargeable time ends when either party "hangs up" thereby releasing the network connection.

3.2.2 Unless otherwise specified in this Tariff, the minimum call duration for bill purposes is sixty (60) seconds. In addition, unless otherwise specified in this Tariff, usage is measured thereafter in sixty (60) second increments and rounded to the next higher sixty (60) second period.

3.3 Minimum Call Completion Rate

3.3.1 A customer can expect a call completion rate of not less than 97% during peak use periods for all Feature Group D services.

3.4 Presubscription

3.4.1 Presubscription Service permits Customers to select RCLEC as the Customer's presubscribed or preferred carrier for interLATA and/or intraLATA interexchange service or a provider of their own choice. The rates for Presubscription Service are set forth in Section 5.

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 4 – MAXIMUM RATES AND CHARGES

4.1 General

4.1.1 The Company's Switched Service is offered to its wholesale customers for both inbound and outbound, IntraLATA and InterLATA calling over standard switched lines.

4.2 Maximum Rates

4.2.1 Switched Inbound Usage Charges

Mileage	Initial 60 Seconds	Additional 60 Seconds
All	$0.10	$0.10

4.2.2 Switched Outbound Usage Charges

Mileage	Initial 60 Seconds	Additional 60 Seconds
All	$0.10	$0.10

4.2.3 Dedicated Services

The Company's Dedicated Service is offered to business customers for both inbound and outbound, IntraLATA and InterLATA calling over standard switched lines.

4.2.3.1 Dedicated Inbound Usage Rates

Mileage	Initial 60 Seconds	Additional 60 Seconds
All	$0.10	$0.10

4.2.4 Recurring Charges

Customers will incur the following monthly recurring charges:

	Switched Access	Dedicated Access
Per 8XX Number	$10.00	$10.00
Accounting Codes (non-verified	$10.00	$10.00
Authorization Codes/BTN (verified)	$10.00	$10.00
Authorization Code change/add/delete	$10.00	$10.00
Monthly Recurring Charge per T-1	N/A	$400.00

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 5 – EFFECTIVE RATES AND CHARGES

5.1 General

5.1.1 The Company's Switched Service is offered to its wholesale customers for both inbound and outbound, IntraLATA and InterLATA calling over standard switched lines.

5.2 Rates

5.2.1 Switched Inbound Usage Charges

Mileage	Initial 60 Seconds	Additional 60 Seconds
All	$0.03	$0.03

5.2.2 Switched Outbound Usage Charges

Mileage	Initial 60 Seconds	Additional 60 Seconds
All	$0.03	$0.03

5.2.3 Dedicated Services

The Company's Dedicated Service is offered to its wholesale customers for both inbound and outbound, IntraLATA and InterLATA calling over standard switched lines.

5.2.3.1 Dedicated Inbound Usage Rates

Mileage	Initial 60 Seconds	Additional 60 Seconds
All	$0.03	$0.03

5.2.4 Recurring Charges

Customers will incur the following monthly recurring charges:

	Switched Access	Dedicated Access
Per 8XX Number	$1.00	$1.00
Accounting Codes (non-verified	$1.00	$1.00
Authorization Codes/BTN (verified)	$1.00	$1.00
Authorization Code change/add/delete	$1.00	$1.00
Monthly Recurring Charge per T-1	N/A	$200.00

John Marlow, Chief Executive Officer
RCLEC, Inc.
1400 Fashion Island Blvd., 7th Fl.
San Mateo, CA 94404

SECTION 6 – CONTRACTS AND PROMOTIONS

6.1 Contracts

At the option of the Company, Service may be offered on an ICB basis to meet the specialized requirements of its wholesale customers. The terms of each such ICB arrangement shall be mutually agreed upon between the Customer and Company and may include discounts off of the rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in this Tariff, or other customized features. The terms of such an ICB arrangement may be based partially or completely on a term or volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Such ICB arrangements will be available to all similarly situated Customers for a fixed period of time following the initial offering to the first ICB Customer as specified in each ICB contract subject to, in the Company's sole discretion, the availability of facilities.

6.2 Promotions

6.2.1 From time to time Company may, at its option, promote subscription or stimulate Service usage by offering to waive or reduce some or all of the nonrecurring or recurring charges for the Customer (if eligible) for a limited duration. Such promotions shall be made available to all similarly situated Customers in the target market area and will comply with all applicable Commission regulations. In no case, shall the resulting rates and charges exceed the rates and charges listed in this Tariff for the same services.

6.2.2 From time to time, subject to Commission rules, Company may demonstrate Service for potential Customers by providing free use of its Services on a limited basis for a period of time, not to exceed one (1) month. Demonstration of Service and the type, duration or quantity of Service provided shall be at the Company's discretion.

6.2.3 Promotional and other credits offered by Company in marketing its Services cannot be assigned. Such credits must be used by the Customer to whom they were offered or the Customer who earned them under the provisions of the offer.

EXHIBIT C

AFFIDAVITS OF PUBLICATION

As indicated in response to Question A-16, the Applicant will publish a legal notice, as directed by the Commission at the appropriate time.

EXHIBIT D

Financial Statements - 10-Q 3rd Quarter 2014

Excerpts of Ring Central, Inc. 10-Q dated 06-30-2014 . For a full copy of the 10-Q, see http://ir.ringcentral.com/doc.aspx?IID=4406983&DID=28802894

The Applicant is a small company in the startup phase, and as indicated in the Application in response to Question B-3, the Applicant relies on the financial resources of its Parent Company.

RNG 10-Q 6/30/2014

Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________
Commission File Number: 001-36089

RingCentral, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3322844** **(I.R.S. Employer Identification No.)**

1400 Fashion Island Boulevard, Suite 700
San Mateo, California 94404
(Address of principal executive offices)

(650) 472-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 28, 2014, there were 43,224,362 shares of Class A Common Stock issued and outstanding and 24,426,380 shares of Class B Common Stock outstanding.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in, but not limited to, the sections titled "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts", "projects," "should," "will," "would" or similar expressions and the negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our future financial performance;
- our anticipated growth and growth strategies and our ability to effectively manage that growth and effect these strategies;
- anticipated trends, developments and challenges in our business and in the markets in which we operate;
- our ability to anticipate and adapt to future changes in our industry;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base;
- maintaining, expanding and responding to changes in our relationships with other companies;
- the impact of competition in our industry and innovation by our competitors;
- our ability to sell our products;
- our ability to expand our business to larger customers and internationally;
- the impact of seasonality on our business;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party service providers;
- the potential effect on our business of litigation to which we may become a party;
- our liquidity and working capital requirements;
- the estimates and estimate methodologies used in preparing our consolidated financial statements; and
- the political environment and stability in the regions in which we or our subcontractors operate.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	June 30, 2014	December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	$ 151,418	$ 116,378
Accounts receivable, net	5,118	3,045
Inventory	2,174	2,111
Prepaid expenses and other current assets	9,125	5,214
Total current assets	167,835	126,748
Property and equipment, net	24,515	16,660
Other assets	2,053	1,777
Total assets	$ 194,403	$ 145,185
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 4,253	$ 4,414
Accrued liabilities	25,804	20,559
Current portion of capital lease obligation	920	347
Current portion of long-term debt	9,105	9,871
Deferred revenue	20,171	16,552
Total current liabilities	60,253	51,743
Long-term debt	20,494	24,356
Sales tax liability	3,939	3,988
Capital lease obligation	699	247
Other long-term liabilities	3,193	1,336
Total liabilities	88,578	81,670
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock	7	6
Additional paid-in capital	262,447	193,574
Accumulated other comprehensive loss	(640)	(310)
Accumulated deficit	(155,989)	(129,755)
Total stockholders' equity	105,825	63,515
Total liabilities and stockholders' equity	$ 194,403	$ 145,185

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Services	$ 47,867	$ 34,471	$ 91,717	$ 66,744
Product	4,920	3,233	9,332	6,485
Total revenues	52,787	37,704	101,049	73,229
Cost of revenues:				
Services	14,792	11,389	28,506	22,098
Product	4,751	3,273	8,940	6,301
Total cost of revenues	19,543	14,662	37,446	28,399
Gross profit	33,244	23,042	63,603	44,830
Operating expenses:				
Research and development	10,874	8,606	20,547	16,110
Sales and marketing	25,688	16,324	49,645	33,466
General and administrative	9,492	11,231	18,459	17,781
Total operating expenses	46,054	36,161	88,651	67,357
Loss from operations	(12,810)	(13,119)	(25,048)	(22,527)
Other income (expense), net:				
Interest expense	(476)	(588)	(1,077)	(1,227)
Other income (expense), net	93	(44)	56	(247)
Other income (expense), net	(383)	(632)	(1,021)	(1,474)
Loss before provision (benefit) for income taxes	(13,193)	(13,751)	(26,069)	(24,001)
Provision (benefit) for income taxes	137	(132)	165	(120)
Net loss	$ (13,330)	$ (13,619)	$ (26,234)	$ (23,881)
Net loss per common share:				
Basic and diluted	$ (0.20)	$ (0.60)	$ (0.40)	$ (1.05)
Weighted-average number of shares used in computing net loss per share:				
Basic and diluted	67,295	22,766	65,557	22,699

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (13,330)	$ (13,619)	$ (26,234)	$ (23,881)
Other comprehensive loss:				
Foreign currency translation adjustments, net	(230)	35	(330)	244
Comprehensive loss	$ (13,560)	$ (13,584)	$ (26,564)	$ (23,637)

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net loss	$ (26,234)	$ (23,881)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,590	4,351
Share-based compensation	7,108	2,336
Noncash interest expense related to debt	122	158
Loss on disposal of assets	24	—
Deferred income tax	82	(45)
Changes in assets and liabilities:		
Accounts receivable	(2,073)	728
Inventory	(63)	(318)
Prepaid expenses and other current assets	(3,911)	(2,055)
Other assets	(666)	(58)
Accounts payable	(504)	133
Accrued liabilities	5,116	3,254
Deferred revenue	3,619	2,416
Other liabilities	1,808	624
Net cash used in operating activities	(10,982)	(12,357)
Cash flows from investing activities:		
Purchases of property and equipment	(10,506)	(5,951)
Restricted investments	—	(130)
Net cash used in investing activities	(10,506)	(6,081)
Cash flows from financing activities:		
Net proceeds from secondary public offering of common stock	57,167	—
Net proceeds from debt agreements	—	3,655
Repayment of debt	(4,751)	(3,961)
Repayment of capital lease obligations	(123)	(206)
Proceeds from issuance of preferred stock warrants	—	265
Payment of offering costs	(1,219)	(232)
Proceeds from exercise of stock options and common stock warrants	5,476	429
Net cash provided by (used in) financing activities	56,550	(50)
Effect of exchange rate changes on cash and cash equivalents	(22)	(10)
Net increase (decrease) in cash and cash equivalents	35,040	(18,498)
Cash and cash equivalents:		
Beginning of period	116,378	37,864
End of period	$ 151,418	$ 19,366
Supplemental disclosure of cash flow data:		
Cash paid for interest	$ 604	$ 685
Cash paid for income taxes	67	31
Noncash investing and financing activities:		
Change in liability for unvested exercised options	$ 28	$ 76
Accrued liability for deferred offering costs	—	1,238
Equipment purchased and unpaid at period end	1,566	1,141
Equipment acquired under capital lease	1,149	—

See accompanying notes to condensed consolidated financial statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

RingCentral, Inc. (the "Company") is a provider of software-as-a-service ("SaaS") solutions for business communications. The Company was incorporated in California in 1999 and was reincorporated in Delaware on September 26, 2013. The Company is headquartered in San Mateo, California.

Public Offerings

On October 2, 2013, the Company completed an initial public offering ("IPO") and sold 8,625,000 shares of Class A common stock to the public, including the underwriters' overallotment option of 1,125,000 shares of Class A common stock and 80,000 shares of Class A common stock sold by selling stockholders, at a price of $13.00 per share. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-190815) (the "Initial Registration Statement"). The Company received aggregate proceeds of $103,309,000 from the IPO, net of underwriters' discounts and commissions, but before deduction of offering expenses of approximately $3,888,000.

On March 11, 2014, the Company completed its secondary public offering and sold 7,991,551 shares of Class A common stock to the public, including 791,551 of the underwriters' overallotment option and 5,200,000 shares of Class A common stock sold by selling stockholders, at a price of $21.50 per share. The offer and sale of all of the shares in the secondary public offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-194132) (the "Secondary Registration Statement"). The Company received aggregate proceeds of $57,167,000 from the secondary public offering, net of underwriters' discounts and commissions, but before deduction of offering expenses of approximately $1,050,000.

Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes of the Company reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2014. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission ("SEC").

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fiscal year ended December 31, 2013 included in the Company's fiscal 2013 Annual Report on Form 10-K. There have been no changes in the Company's significant accounting policies from those that were disclosed in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management affect revenues, accounts receivable, the allowance for doubtful accounts, inventory and inventory reserves, share-based compensation, deferred revenue, return reserves, provision for income taxes, uncertain tax positions, loss contingencies, sales tax liabilities and accrued liabilities. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance is a result of a joint project with the International Accounting Standards Board (the "IASB") to clarify and converge the revenue recognition principles under U.S. GAAP and IFRS and to develop guidance that would streamline and enhance revenue recognition requirements. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* The new standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grand-date fair value of the award. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements.

Note 2. Financial Statement Components

Cash and cash equivalents consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Cash	$ 22,389	$ 34,561
Money market funds	129,029	81,817
Total cash and cash equivalents	$ 151,418	$ 116,378

Accounts receivable, net consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Accounts receivable	$ 3,858	$ 2,192
Unbilled accounts receivable	1,363	992
Allowance for doubtful accounts	(103)	(139)
Accounts receivable, net	$ 5,118	$ 3,045

Property and equipment, net consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Computer hardware and software	$ 39,888	$ 30,449
Internal-use software development costs	5,135	4,636
Furniture and fixtures	1,882	1,127
Leasehold improvements	2,376	859
Property and equipment, gross	49,281	37,071
Less: accumulated depreciation	(24,766)	(20,411)
Property and equipment, net	$ 24,515	$ 16,660

Accrued liabilities consisted of (in thousands):

	June 30, 2014	December 31, 2013
Accrued compensation and benefits	$ 6,135	$ 5,660
Accrued sales, use and telecom related taxes	5,576	3,967
Accrued expenses	13,110	10,168
Other	983	764
Total accrued liabilities	$ 25,804	$ 20,559

Note 3. Fair Value of Financial Instruments

The Company carries certain financial assets consisting of money market funds and certificates of deposit at fair value on a recurring basis. Fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1: Observable inputs which include unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and that are based on management's assumptions, including fair value measurements determined by using pricing models, discounted cash flow methodologies or similar techniques.

The fair value of assets carried at fair value was determined using the following inputs (in thousands):

	Balance at June 30, 2014	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 129,029	$ 122,733	$ 6,296	$ —
Other assets:				
Certificates of deposit	$ 630	$ —	$ 630	$ —

	Balance at December 31, 2013	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 81,817	$ 72,717	$ 9,000	$ —
Other assets:				
Certificates of deposit	$ 630	$ —	$ 630	$ —

The Company's other financial instruments, including accounts receivable, accounts payable and other current liabilities, are carried at cost which approximates fair value due to the relatively short maturity of those instruments. Based on borrowing rates available to the Company for loans with similar terms, the stable interest rate environment and considering our credit risks, the carrying value of debt approximates fair value.

Note 4. Debt

As of June 30, 2014, the Company's debt is comprised of borrowings under loan and security agreements, as amended, with Silicon Valley Bank ("SVB") and TriplePoint Capital LLC ("TriplePoint").

SVB Loan Agreement

Under the SVB agreement, the Company has two outstanding growth capital term loans (i.e., "the 2012 term loan" and "the 2013 term loan"), and a revolving line of credit.

The 2012 term loan was borrowed in March 2012 with a principal amount of $8,000,000, which is being repaid in 36 equal monthly installments of principal and interest. Under the 2012 term loan, interest is paid monthly and accrues at a floating rate based on the Company's option of the (i) prime rate plus a margin of 0.25% or 0.50% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.25% or 3.50%, in each case such margin being determined based on cash balances maintained with SVB. The Company elected the prime rate option and, based on cash balances maintained with SVB at June 30, 2014, the current interest rate is 3.5%. In addition, a final terminal payment equal to 0.5% of the original loan principal is due at maturity. As of June 30, 2014, the outstanding principal balance of the 2012 term loan was $2,000,000.

The 2013 term loan was borrowed on December 31, 2013 with a principal amount of $15,000,000, which is being repaid in 48 equal monthly installments of principal and interest. Interest is due monthly and accrues at a floating rate based on the Company's option of an annual rate of either the (i) prime rate plus a margin of 0.75% or 1.00% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.75% or 4.00%, in each case such margin being determined based on cash balances maintained with SVB. The Company elected the prime rate option and based on cash balances maintained with SVB at June 30, 2014, the current interest rate is 4.0%. As of June 30, 2014, the outstanding principal balance of the 2013 term loan was $13,438,000.

The revolving line of credit provides for a maximum borrowing of up to $15,000,000 subject to limits based on the outstanding principal balance of the 2012 term loan and recurring subscription revenue amounts as defined in the agreement. The recurring subscription revenue requirement is not expected to limit the amount of borrowings available under the line of credit. Under the line of credit, interest is paid monthly and accrues at a floating rate based on the Company's option of the (i) prime rate plus a margin of 0.25% or 0.50% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.25% or 3.50%, in each case such margin being determined based on cash balances maintained with SVB. The Company elected the prime rate option and based on cash balances maintained with SVB at June 30, 2014, the current interest rate is 3.5%. All outstanding principal and unpaid interest must be repaid by August 13, 2015. As of June 30, 2014, the outstanding principal balance and the available borrowing capacity of the line of credit were $10,778,000 and $2,222,000, respectively.

The Company has pledged all of its assets, excluding intellectual property, as collateral to secure its obligations under the SVB agreement. The SVB agreement contains customary negative covenants that limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The SVB agreement also contains customary affirmative covenants, including requirements to, among other things, (i) maintain minimum cash balances representing the greater of $10,000,000 or three times the Company's quarterly cash burn rate, as defined in the agreement, and (ii) maintain minimum EBITDA levels, as determined in accordance with the agreement. On June 17, 2014, the Company adjusted certain financial covenant thresholds to expand its ability to invest in certain foreign subsidiaries. The Company was in compliance with all covenants under its credit agreement with SVB as of June 30, 2014.

TriplePoint Loan Agreement

Under the equipment loan and security agreement with TriplePoint, the Company borrowed equipment term loans with aggregate principal of $9,691,000 in August 2012. The equipment term loans are being repaid in 36 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 5.75%. In addition, a final terminal payment is due at maturity equal to 10% of the original loan principal. As of June 30, 2014, the outstanding principal balance of the TriplePoint equipment term loan was $3,676,000.

The TriplePoint equipment loan and security agreement contains customary negative covenants that limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The TriplePoint equipment loan and security agreement also contain customary affirmative covenants, including requirements to, among other things, deliver audited financial statements. On June 17, 2014, the Company adjusted certain financial covenant thresholds to expand its ability to invest in certain foreign subsidiaries. The Company was in compliance with all covenants under its credit agreements with TriplePoint as of June 30, 2014.

Note 5. Commitments and Contingencies

Leases

The Company leases facilities for office space under noncancelable operating leases for its U.S. and international locations and has entered into capital lease arrangements to obtain property and equipment for its operations. In addition, the Company leases space from third party datacenter hosting facilities under co-location agreements to support its cloud infrastructure. In March 2014, the Company entered into a new lease for its office in Denver, Colorado for a total lease commitment of $4,653,000 million through 2019 and lease incentives totaling $1,159,000 million. In May 2014, the Company entered into a new lease for its office in London, England for a total lease commitment of approximately $1,941,000 million through 2019 with an option to extend through 2024. Both agreements contain escalating monthly rental payments over the lease term, which will be amortized to rent expense on a straight-line basis over the lease term.

Sales Tax Liability

During 2010 and 2011, the Company increased its sales and marketing activities in the U.S., which may be asserted by a number of states to create an obligation under nexus regulations to collect sales taxes on sales to customers in the state. Prior to 2012, the Company did not collect sales taxes from customers on sales in all states. In the second quarter of 2012, the Company commenced collecting and remitting sales taxes on sales in all states so a loss contingency related to sales taxes exists for sales and marketing activities in 2010, 2011 and the six months ended June 30, 2012. As of June 30, 2014 and December 31, 2013, the Company had a balance for a long-term sales tax liability of $3,939,000 and $3,988,000, respectively, based on its best estimate of the probable liability for the loss contingency incurred as of those dates. The Company's estimate of a probable outcome under the loss contingency is based on analysis of its sales and marketing activities, revenues subject to sales tax, and applicable regulations in each state in each period. No significant adjustments to the long-term sales tax liability have been recognized in the accompanying condensed consolidated financial statements for changes to the assumptions underlying the estimate. However, changes in management's assumptions may occur in the future as the Company obtains new information which can result in adjustments to the recorded liability. Increases and decreases to the long-term sales tax liability are recorded as general and administrative expense.

A current sales tax liability for noncontingent amounts expected to be remitted in the next twelve months of $4,306,000 and $3,451,000, is included in accrued liabilities as of June 30, 2014 and December 31, 2013, respectively.

Legal Matters

The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing specific litigation and regulatory matters using reasonably available information. The Company develops its views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Legal fees are expensed in the period in which they are incurred. As of June 30, 2014 and December 31, 2013, the Company did not have any accrued liabilities recorded for such loss contingencies.

Note 6. Share-Based Compensation

A summary of share-based compensation expense recognized in the Company's consolidated statements of operations follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of services revenues	$ 348	$ 87	$ 644	$ 168
Research and development	848	242	1,500	517
Sales and marketing	1,305	225	2,265	404
General and administrative	1,430	668	2,699	1,247
Total share-based compensation expense	$ 3,931	$ 1,222	$ 7,108	$ 2,336

A summary of share-based compensation expense by award type follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
Options	$	2,618	$	1,222	$	5,072	$	2,336
Employee stock purchase plan rights		425		—		930		—
Restricted stock units		888		—		1,106		—
Total share-based compensation expense	$	3,931	$	1,222	$	7,108	$	2,336

As of June 30, 2014 and December 31, 2013, there was approximately $22,466,000 and $22,439,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to nonvested stock option grants, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 2.7 years and 3.0 years, respectively.

Equity Incentive Plans

As of June 30, 2014 a total of 7,795,000 shares remained available for grant under the 2013 Plan. A summary of option activity under all of the Company's equity incentive plans at June 30, 2014 and changes during the period then ended is presented in the following table:

	Number of Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share		Weighted-Average Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)	
Outstanding at December 31, 2013	11,156	$	5.87	7.7	$	139,484
Granted	840		16.14			
Exercised	(2,006)		1.50			
Canceled/Forfeited	(403)		5.62			
Outstanding at June 30, 2014	9,587	$	7.69	7.5	$	73,099
Vested and expected to vest as of June 30, 2014	9,087	$	7.56	7.4	$	70,604
Exercisable as of June 30, 2014	4,411	$	4.08	6.4	$	48,844

The weighted average grant date fair value of options granted and the total intrinsic value of options exercised were as follows (in thousands, except weighted average grant date fair value):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted average grant date fair value per share	$ 5.75	$ 5.72	$ 6.52	$ 5.40
Total intrinsic value of options exercised	$ 4,758	$ 1,126	$ 27,340	$ 2,266

The Company estimated the fair values of each option awarded on the date of grant using the Black-Scholes option pricing model, which requires inputs including the fair value of common stock, expected term, expected volatility, risk-free interest and dividend yield. The weighted-average assumptions used in the option pricing models in the periods presented were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Expected term for employees (in years)	4.3	6.1	4.4	6.1
Expected term for non-employees (in years)	7.0	10.0	7.0	10.0
Risk-free interest rate	1.34%	1.42%	1.36%	1.36%
Expected volatility	48%	54%	48%	55%
Expected dividend rate	0%	0%	0%	0%

On January 29, 2014, the Compensation Committee of the Board of Directors approved an amendment to decrease the contractual term of all equity awards issued from the 2013 Plan from 10 years to 7 years for all awards granted after January 29, 2014.

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of the Class A common stock at a discount through payroll deductions of up to the lesser of 15% of their eligible compensation or $25,000 per calendar year, at not less than 90% of the fair market value, as defined in the ESPP, subject to any plan limitations. A participant may purchase a maximum of 3,000 shares during an offering period. The offering period starts on the first trading day on or after May 11th and November 11th of each year, except that the first offering period commenced on the first trading day following the effective date of the Company's Initial Registration Statement, and the offering period ends six months after the beginning of the offering period, on the last trading day on or after May 10th and November 10th of each year. At the end of the offering period, the purchase price is set at the lower of: (i) 90% of the fair value of the Company's common stock at the beginning of the six month offering period, and (ii) 90% of the fair value of the Company's common stock at the end of the six month offering period. As of June 30, 2014, there was a total of $395,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to ESPP, which will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 0.4 years. At June 30, 2014, a total of 1,658,000 shares were available for issuance under the ESPP.

Restricted Stock Units

For the three months ended June 30, 2014, we issued 672,350 restricted stock units of Class A common stock under the 2013 Plan with a weighted average grant date fair value of $15.75 per share. As of June 30, 2014, there was a total of $15,175,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to restricted stock units, which will be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately 3.8 years.

Note 7. Concentrations

Revenue by geographic location is based on the billing address of the customer. More than 90% of the Company's revenue is from the United States during the three and six months ended June 30, 2014 and 2013. Property and equipment by geographic location is based on the location of the legal entity that owns the asset. At June 30, 2014 and December 31, 2013, more than 90% and 84%, respectively, of the Company's property and equipment was located in the United States, with no single country outside the United States representing more than 10% of property and equipment.

Note 8. Income Taxes

The provision (benefit) for income taxes for the three and six months ended June 30, 2014 and 2013, was $137,000, ($132,000), $165,000 and ($120,000), respectively. The provision for income taxes during the three and six months ended June 30, 2014 consisted primarily of state minimum taxes, foreign income taxes, and the write-off of a foreign deferred tax asset recognized in 2013. The benefit for income taxes during the three and six months ended June 30, 2013 consisted of foreign income taxes, state minimum taxes and recognition of a foreign tax credit.

For the three and six months ended June 30, 2014 and 2013, the provision for income taxes differed from the U.S federal statutory amount primarily due to state and foreign taxes currently payable, and the Company realized no benefit for current year losses due to maintaining a full valuation allowance against the U.S. and foreign net deferred tax assets.

The realization of tax benefits of deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the available objective evidence, the Company does not believe it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against the domestic and foreign net deferred tax assets as of June 30, 2014 and December 31, 2013. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance.

During the three and six months ended June 30, 2014, there have been no material changes to the total amount of unrecognized tax benefits.

Note 9. Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture as they are not deemed to be issued for accounting purposes. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including preferred stock, warrants to exercise common and preferred stock options and restricted stock units, to the extent they are dilutive. Upon the effectiveness of the Initial Registration Statement and the filing of its Certificate of Incorporation in Delaware on September 26, 2013, all outstanding preferred stock and warrants to purchase preferred stock were converted to common stock and warrants to purchase common stock, respectively. For the three and six months ended June 30, 2014 and 2013, all such common stock equivalents have been excluded from diluted net loss per share as the effect to net loss per share would be anti-dilutive.

The following table sets forth the computation of the Company's basic and diluted net loss per share of common stock (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator				
Net loss	$ (13,330)	$ (13,619)	$ (26,234)	$ (23,881)
Denominator				
Weighted-average common shares for basic and diluted net loss per share	67,295	22,766	65,557	22,699
Basic and diluted net loss per share	$ (0.20)	$ (0.60)	$ (0.40)	$ (1.05)

The following table sets forth the potential shares of common stock that were excluded from diluted weighted-average common shares outstanding (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Shares of common stock issuable upon conversion of preferred stock	—	30,369	—	30,369
Shares of common stock issuable upon conversion of warrants	—	370	—	370
Shares of common stock subject to repurchase	22	61	22	61
Shares of common stock issuable under equity incentive awards outstanding	10,540	9,849	10,540	9,849
Potential common shares excluded from diluted net loss per share	10,562	40,649	10,562	40,649

EXHIBIT D

FINANCIAL STATEMENTS - 2013 10-K

Excerpts of Ring Central, Inc. 10-K dated 12-31-2013 . For a full copy of the 10-K, see http://ir.ringcentral.com/doc.aspx?IID=4406983&DID=27037444

RNG 10-K 12/31/2013

Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For transition period from to

Commission File Number: 001-36089

RingCentral, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**94-3322844**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1400 Fashion Island Boulevard, Suite 700
San Mateo, California 94404
(Address of principal executive offices)

(650) 472-4100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.0001	**New York Stock Exchange**

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by a check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the Registrant on September 27, 2013, based on the closing price of $18.20 for shares of the Registrant's common stock as reported by the New York Stock Exchange, was approximately $481.2 million. The Registrant has elected to use September 27, 2013 as the calculation date, which was the initial trading date of the Registrant's common stock on the New York Stock Exchange, because on June 30, 2013 (the last business day of the Registrant's second fiscal quarter), the Registrant was a privately-held company. Shares of common stock held by each executive officer, director, and their affiliated holders have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 21, 2014, there were approximately 10,186,210 shares of Class A common stock and 52,913,219 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held in 2014. Such Proxy Statement will be filed by the Registrant with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year ended December 31, 2013.

TABLE OF CONTENTS

PART I.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts", "projects," "should," "will," "would" or similar expressions and the negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our future financial performance;
- our anticipated growth and growth strategies and our ability to effectively manage that growth and effect these strategies;
- anticipated trends, developments and challenges in our business and in the markets in which we operate;
- our ability to anticipate and adapt to future changes in our industry;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base;
- maintaining, expanding and responding to changes in our relationships with other companies;
- the impact of competition in our industry and innovation by our competitors;
- our ability to sell our products;
- our ability to expand internationally;
- the impact of seasonality on our business;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party service providers;
- the potential effect on our business of litigation to which we may become a party;
- our liquidity and working capital requirements; and
- the estimates and estimate methodologies used in preparing our consolidated financial statements

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future.

ITEM 1. BUSINESS

Overview

We are a leading provider of software-as-a-service, or SaaS, solutions for business communications. We believe that our innovative, cloud-based approach disrupts the large market for business communications solutions by providing flexible and cost-effective services that support distributed workforces, mobile employees and the proliferation of "bring-your-own" communications devices. We enable convenient and effective communications for our customers across all their locations, all their employees, all the time, thus enabling a more productive and dynamic workforce. RingCentral Office, our flagship service, is a multi-user, enterprise-grade communications solution that enables our customers and their employees to communicate via voice, text, HD video and web conferencing and fax, on multiple devices, including smartphones, tablets, PCs and desk phones.

Traditionally, businesses have used on-premise hardware-based communications systems, commonly referred to as private branch exchanges, or PBXs. These systems generally require specialized and expensive hardware that must be deployed at every business location and are primarily designed for employees working only at that location and using only their desk phones. In addition, these systems generally require significant upfront investment and ongoing maintenance and support costs.

Our solutions have been developed with a mobile-centric approach and can be configured, managed and used from a smartphone or tablet. We have designed our user interfaces to be intuitive and easy to use for both administrators and end-users. We believe that we can provide substantial savings to our customers because our services do not require the significant upfront investment in on-premise infrastructure hardware or ongoing maintenance costs commonly associated with on-premise systems. Our solutions generally use existing broadband connections. We design our solutions to be delivered to our customers with high reliability and quality of service using our proprietary high-availability and scalable infrastructure.

We primarily generate revenues by selling subscriptions for our cloud-based services. We focus on acquiring and retaining our customers and increasing their spending with us through adding additional users, upselling current customers to premium service editions, and providing additional features and functionality. We market and sell our services directly, through both our website and inside sales teams, as well as indirectly through a network of over 1,500 sales agents and resellers, including AT&T, which we refer to collectively as resellers. We have a differentiated business model that reduces the time and cost to purchase, activate and begin using our services. We generally offer free trials to prospective customers, allowing them to evaluate our solutions before making a purchasing decision.

We have a diverse and growing customer base comprised of over 300,000 businesses across a wide range of industries, including advertising, consulting, finance, healthcare, legal, real estate, retail and technology. To date, we have focused our principal efforts on the market for small- and medium-sized businesses, defined by IDC as less than 1,000 employees, in the U.S., Canada and the United Kingdom. We are making investments in an effort to address larger customers. We also believe that there is an additional growth opportunity in international markets.

Our Solutions

Our cloud-based business communications solutions provide a single user identity across multiple locations and devices, including smartphones, tablets, PCs and desk phones, and allow for communication across multiple channels, including voice, text, HD video and web conferencing and fax. Our proprietary solutions enable a more productive and dynamic workforce, and have been architected using industry standards to meet modern business communications requirements, including workforce mobility, "bring-your-own" communications device environments and multiple communications channels.

Our solutions are delivered using a high-availability and, scalable infrastructure and are designed for easy self-service activation, provisioning and management with minimal technical expertise or training required. Our solutions scale easily and rapidly, allowing our customers to add new users regardless of where they are located. They are generally affordable, requiring little to no upfront infrastructure hardware costs or ongoing maintenance and upgrade costs commonly associated with on-premise systems. RingCentral Office, our flagship offering, is a multi-user, enterprise-grade communications solution. We sell RingCentral Office in three editions: Standard, Premium and Enterprise. We also offer RingCentral Professional, primarily an inbound call routing service with additional text and fax capabilities targeting smaller deployments, and RingCentral Fax, an Internet fax service that permits sending and receiving faxes over the Internet.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated statements of operations data and the consolidated balance sheets data are derived from our audited consolidated financial statements and should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations", our consolidated financial statements and the related notes included elsewhere in this filing. Our historical results are not necessarily indicative of our results in any future period.

	2013	2012	2011	2010	2009
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues:					
Services	$ 145,995	$ 105,693	$ 71,915	$ 46,385	$ 28,892
Product	14,510	8,833	6,962	3,837	1,196
Total revenues	160,505	114,526	78,877	50,222	30,088
Cost of revenues:					
Services(1)	47,230	36,215	26,475	17,915	10,492
Product	14,289	8,688	6,523	4,537	1,815
Total cost of revenues	61,519	44,903	32,998	22,452	12,307
Gross profit	98,986	69,623	45,879	27,770	17,781
Operating expenses:					
Research and development(1)	33,399	24,450	12,199	7,208	4,615
Sales and marketing(1)	72,336	54,566	34,550	22,922	16,151
General and administrative(1)	34,284	24,434	12,969	4,934	3,401
Total operating expenses	140,019	103,450	59,718	35,064	24,167
Loss from operations	(41,033)	(33,827)	(13,839)	(7,294)	(6,386)
Other income (expense), net:					
Interest expense	(5,384)	(1,503)	(158)	(184)	(22)
Other income (expense), net	274	32	109	172	(6)
Other income (expense), net	(5,110)	(1,471)	(49)	(12)	(28)
Loss before provision (benefit) for income taxes	(46,143)	(35,398)	(13,888)	(7,306)	(6,414)
Provision (benefit) for income taxes	(45)	92	15	1	—
Net loss	$ (46,098)	$ (35,390)	$ (13,903)	$ (7,307)	$ (6,414)
Net loss per common share:					
Basic and diluted	$ (1.39)	$ (1.58)	$ (0.64)	$ (0.35)	$ (0.32)
Weighted-average number of Shares used in computing net loss per share:					
Basic and diluted	33,155	22,353	21,678	20,871	20,100

(1) Share-based compensation expense is included in our results of operations as follows (in thousands)

	Year ended December 31,				
	2013	2012	2011	2010	2009
Cost of services revenues	$ 539	$ 235	$ 141	$ 58	9
Research and development	1,495	837	260	111	215
Sales and marketing	1,313	651	297	340	181
General and administrative	4,193	1,379	490	311	93
Total share-based compensation expense	$ 7,540	$ 3,102	$ 1,188	$ 820	498

	As of December 31,				
	2013	2012	2011	2010	2009
Consolidated Balance Sheet Data (in thousands):					
Cash and cash equivalents	$ 116,378	$ 37,864	$ 13,577	$ 11,137	4,802
Working capital (deficit)	75,005	(484)	(5,147)	(3,317)	(2,839)
Total assets	145,185	63,354	27,362	21,138	7,932
Deferred revenue	16,552	11,291	9,042	6,516	4,528
Debt and capital lease obligations	34,821	21,079	979	2,472	—
Convertible preferred stock	—	74,020	44,109	33,724	23,854
Total stockholders' equity (deficit)	63,515	71	1,452	2,909	(720)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in "Risk Factors."

Overview

We are a leading provider of software-as-a-service, or SaaS, solutions for business communications. We believe that our innovative, cloud-based approach disrupts the large market for business communications solutions by providing flexible and cost-effective services that support distributed workforces, mobile employees and the proliferation of "bring-your-own" communications devices. We enable convenient and effective communications for our customers, across all their locations, all their employees, all the time, thus enabling a more productive and dynamic workforce. RingCentral Office, our flagship service, is a multi-user, enterprise-grade communications solution that enables our customers and their employees to communicate via different channels and on multiple devices, including smartphones, tablets, PCs and desk phones. We sell RingCentral Office in three editions: Standard, Premium and Enterprise. Our Standard Edition of RingCentral Office includes call management, mobile applications, voice, business SMS, integration with Dropbox, Box, Google Drive and Microsoft Office and Outlook, and conferencing capabilities. Our Premium Edition includes the Standard Edition functionality together with Salesforce CRM integration, automatic call recording and premium support. Our Enterprise Edition, which we launched in January 2014, adds multipoint HD video and web conferencing and online meetings.

We founded our business in 1999 and currently offer three services: RingCentral Office, RingCentral Professional, and RingCentral Fax. Prior to 2009, substantially all of our revenues were derived from RingCentral Professional, which we previously sold as RingCentral Mobile, from RingCentral Fax, and from Extreme Fax, a discontinued service. In 2009, we began selling RingCentral Office, our current flagship service, to deliver an enterprise-grade SaaS multi-user communications solution, with advanced inbound and outbound voice, text, fax and HD video and web conferencing capabilities, delivered as a scalable solution.

We primarily generate revenues by selling subscriptions for our RingCentral Office, RingCentral Professional, and RingCentral Fax offerings. RingCentral Office is offered at monthly subscription rates, varying with the specific functionalities and services and the number of users. RingCentral Office customers generally pay higher monthly subscription rates than customers of our other service offerings. RingCentral Professional is offered at monthly subscription rates that vary based on the desired number of minutes usage and extensions allotted to the plan. RingCentral Fax is offered at monthly subscription rates that vary based on the desired number of pages and phone numbers allotted to the plan.

Our subscription plans have historically had monthly or annual contractual terms and over 90% of our current customers are on monthly contractual terms, although we also have subscription plans with multi-year contractual terms, generally with larger customers. We believe that this flexibility in contract duration is important to meet the different needs of our customers. Generally, our fees for subscription plans have been billed in advance via credit card. However, as the number of RingCentral Office customers grows, we expect to bill more customers through commercial invoices with customary payment terms and, accordingly, our levels of accounts receivable may increase. For fiscal 2013, 2012 and 2011, services revenues accounted for more than 90% of our total revenues. The remainder of our revenues is primarily comprised of product revenues from the sale of pre-configured office phones, which we offer as a convenience to our customers in connection with subscriptions to our services.

We make significant upfront investments to acquire customers. Until 2009, we acquired most of our customer subscriptions through e-commerce transactions on our website driven by online marketing channels. Beginning in 2009, in connection with our introduction of RingCentral Office, we established a direct, inside sales force. Since then, we have continued investing in our direct, inside sales force while also developing indirect sales channels to market our brand and our service offerings. Our indirect sales channel consists of a network of over 1,500 sales agents and resellers, including AT&T, which we refer to collectively as resellers. We intend to continue to foster this network and to expand our network with other resellers. Beginning in 2011, we also began expanding into more traditional forms of media advertising, such as radio and billboard advertising.

Since its launch, our revenue growth has primarily been driven by our flagship RingCentral Office service offering, which has resulted in an increased number of customers, increased average subscription revenues per customer, and increased retention of our existing customer and user base. We define a "customer" as one individual billing relationship for the subscription to our services, which generally correlates to one company account per customer. We define a user as one person within a customer who has been granted a subscription license to use our services, such that the number of users per customer generally correlates closely to the number of employees within a customer account. For the fiscal years ended December 31, 2013, 2012 and 2011, no single customer accounted for more than 10% of our total revenues, and our 10 largest non-reseller customers accounted for less than 10% of our total revenues. As of December 31, 2013, we had over 300,000 customers from industries including advertising, finance, healthcare, legal services, non-profit organizations, real estate, retail and technology, and ranging in size from businesses with fewer than 10 users to more than 900 users. In October of 2013, we launched our United Kingdom operations, however for the fiscal years ended December 31, 2013, 2012 and 2011, 99% of our total revenues were generated in the U.S. and Canada, although we expect the percentage of our total revenues derived outside of the U.S. and Canada to grow as we expand internationally in the United Kingdom and beyond.

The growth of our business and our future success depend on many factors, including our ability to expand our customer base to medium-sized and larger customers, continue to innovate, grow revenues from our existing customer base, expand our distribution channels and scale internationally. For example, as a result of our efforts to expand our customer base to target medium-sized and larger businesses, we expect to incur additional research and development and support and professional services costs and may experience longer sales cycles that may delay revenues associated with these costs. Furthermore, because we have limited experience selling to larger businesses and international customers, our investment in marketing our services to these potential customers may not be successful, which could materially and adversely affect our results of operations and our overall ability to grow our customer base. While these areas represent significant opportunities for us, they also pose risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. In addition, there has been substantial litigation in the areas in which we operate regarding intellectual property rights, including third parties claiming patent infringement which we have been subjected to and is further described under "Item 3—Legal Proceedings" in this Annual Report on Form 10-K and in Note 5 to our consolidated financial statements. We cannot assure you that we will be successful in defending against any such claims or that we will be able to settle any ongoing or future claims or that any such settlement would be on terms that are favorable to us.

We have experienced significant growth in recent periods, with total revenues of $160.5 million, $114.5 million and $78.9 million in fiscal years ended December 31, 2013, 2012 and 2011, respectively, generating year-over-year increases of 40% and 45%, respectively. We have continued to make significant expenditures and investments, including those in sales and marketing, research and development, infrastructure and operations and incurred net losses of $46.1 million, $35.4 million and $13.9 million, in fiscal years 2013, 2012 and 2011, respectively.

Components of Results of Operations

Revenues

Our revenues consist of services revenues and product revenues. Our services revenues include all fees billed in connection with subscriptions to our RingCentral Office, RingCentral Professional, and RingCentral Fax services. These fees include recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits, recurring administrative cost recovery fees, one-time fees and other recurring fees related to our services. We provide our services to our customers pursuant to contractual arrangements that range in duration from one month to three years. We provide our services to our customers pursuant to either "click through" online agreements for service terms up to one year or written agreements when the arrangement is expected to be one year or longer. Our multi-year engagements do not typically exceed three years. We offer our services based on the functionalities and services selected by a customer, and generally our service arrangements automatically renew for some additional period at the end of the initial subscription term. We believe that this flexibility in contract duration is important to meet the different needs of our customers.

We generally bill our service fees in advance. We recognize services revenues over the term of the subscription, except for one-time fees, which we recognize ratably on a straight-line basis over the period of the estimated average customer life and for variable usage-based fees, which we recognize over the estimated usage period in a manner that approximates actual usage. Amounts billed in excess of revenues recognized for the period are reported as deferred revenue on our consolidated balance sheet.

Our services revenues are primarily driven by recurring subscription services. Historically, we have acquired more new customers in the first and third quarters of a fiscal year. However, we have seen this trend become less pronounced as our business has grown and sales of RingCentral Office have accounted for a higher percentage of our total revenues.

Our product revenues consist primarily of the sale of pre-configured office phones used in connection with our services and include shipping and handling fees. Product revenues are billed at the time the order is received and recognized when the product has been delivered to the customer.

We also generate services revenues and product revenues through sales of our services and products by resellers. When we assume a majority of the business risks associated with performance of the contractual obligations, we record the revenues on a gross basis and amounts retained by our resellers are recorded as sales and marketing expenses. Our assumption of such business risks is evidenced when, among other things, we take responsibility for delivery of the service or product, establish pricing of the arrangement, assume credit and inventory risk, and are the primary obligor in the arrangement. When a reseller assumes the majority of the business risks associated with the performance of the contractual obligations, we record the associated revenues at the net amount remitted to us by the reseller. Revenues from resellers have predominantly been recorded on a gross basis for all periods presented.

Cost of Revenues and Gross Margin

Our cost of services revenues primarily consists of fees that we pay to third-party telecommunications providers, network operations, costs to build out and maintain data centers, including co-location fees for the right to place our servers in data centers owned by third parties, depreciation of equipment, along with related utilities and maintenance costs, personnel costs associated with customer care and support of the functionality of our platform and data center operations, including share-based compensation expenses, and allocated costs of facilities and information technology.

Services gross margin, which we define as services revenues minus cost of services revenues expressed as a percentage of services revenues, can fluctuate based on a number of factors, including the costs we pay to third-party telecommunications providers, the timing of capital expenditures and related depreciation charges and changes in headcount. We expect to continue investing in our network infrastructure and customer support function to maintain high availability, quality of service, and security. As our business grows, we expect to continue to reduce the percentage of our services revenues that we spend on telecommunications origination and termination, driven by increased purchasing leverage and from increased deployment of hardware to carry our own telecommunications traffic in several regional markets. We also expect to realize economies of scale in network infrastructure, personnel, and customer support. We expect our services gross margin to increase modestly over time, although it may fluctuate from period to period depending on all of these factors including seasonality.

Cost of product revenues is comprised primarily of the cost associated with purchased phones, as well as personnel costs for contractors, and allocated costs of facilities and information technology related to the procurement, management, and shipment of phones.

We sell our products as a convenience to our customers when they subscribe to our services. We often offer significant product discounts and may sell our products at or below cost as an incentive for customers to subscribe to our services. We therefore expect our product gross margin, which we define as product revenues minus cost of product revenues expressed as a percentage of product revenues, to remain negligible to negative for the foreseeable future.

Operating Expenses

We classify our operating expenses as research and development, sales and marketing and general and administrative expenses.

Our research and development efforts are focused on developing new and expanded features for our services, integrations with distributors and other software platforms and improvements to our backend architecture. Research and development expenses consist primarily of personnel costs for employees and contractors, including share-based compensation expenses, and allocated costs of facilities and information technology, software tools, and product certification. We expense research and development costs as incurred, except for certain internal-use software development costs that we capitalize. We believe that continued investment in our services is important for our future growth, and we expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of these expenses.

Sales and marketing expenses are the largest component of our operating expenses and consist primarily of personnel costs for employees and contractors directly associated with our sales and marketing activities, including share-based compensation expenses, Internet advertising fees, radio and billboard advertising, public relations, commissions paid to resellers and other third parties, trade shows, travel expenses, credit card fees, marketing and promotional activities and allocated costs of facilities and information technology. We expect our sales and marketing expenses to continue to increase in absolute dollars for the foreseeable future as we expand our sales and marketing efforts domestically and internationally and continue to build our brand, although these expenses may fluctuate as a percentage of our total revenues from period to period depending on the timing of these expenses.

General and administrative expenses consist primarily of personnel costs, including share-based compensation expenses, for employees and contractors engaged in infrastructure and administrative activities to support the day-to-day operations of our business. Other significant components of general and administrative expenses include professional service fees, allocated costs of facilities and information technology, cost of compliance with certain government imposed taxes, and the costs of legal matters and loss contingencies. We incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations, and professional services. We expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future, although these expenses may fluctuate as a percentage of our total revenues from period to period, depending on the timing of these expenses.

Results of Operations

The following tables set forth selected consolidated statement of operations data and such data as a percentage of total revenues. The historical results presented below are not necessarily indicative of the results that may be expected for any future period (in thousands):

		Year Ended	
	December 31, 2013	December 31, 2012	December 31, 2011
Revenues:			
Services	$ 145,995	$ 105,693	$ 71,915
Product	14,510	8,833	6,962
Total revenues	160,505	114,526	78,877
Cost of revenues:			
Services	47,230	36,215	26,475
Product	14,289	8,688	6,523
Total cost of revenues	61,519	44,903	32,998
Gross profit	98,986	69,623	45,879
Operating expenses:			
Research and development	33,399	24,450	12,199
Sales and marketing	72,336	54,566	34,550
General and administrative	34,284	24,434	12,969
Total operating expenses	140,019	103,450	59,718
Loss from operations	(41,033)	(33,827)	(13,839)
Other income (expense), net:			
Interest expense	(5,384)	(1,503)	(158)
Other income (expense), net	274	32	109
Other income (expense), net	(5,110)	(1,471)	(49)
Loss before provision (benefit) for income taxes	(46,143)	(35,298)	(13,888)
Provision (benefit) for income taxes	(45)	92	15
Net loss	$ (46,098)	$ (35,390)	$ (13,903)

Percentage of Total Revenues

	Year Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
Revenues:			
Services	91%	92%	91%
Product	9	8	9
Total revenues	100	100	100
Cost of revenues:			
Services	29	32	34
Product	9	7	8
Total cost of revenues	38	39	42
Gross profit	62	61	58
Operating expenses:			
Research and development	21	22	16
Sales and marketing	45	48	44
General and administrative	21	21	16
Total operating expenses	87	91	76
Loss from operations	(26)	(30)	(18)
Other income (expense), net:			
Interest expense	(3)	(1)	-
Other income (expense), net	-	-	-
Other income (expense), net	(3)	(1)	-
Loss before provision (benefit) for income taxes	(29)	(31)	(18)
Provision (benefit) for income taxes	-	-	-
Net loss	(29)%	(31)%	(18)%

Comparison of Fiscal Years Ended December 31, 2013, 2012 and 2011 (dollars in thousands):

Revenues

	Year Ended December 31,				Year Ended December 31,			
	2013	2012	$ Change	% Change	2012	2011	$ Change	% Change
Revenues:								
Services	$ 145,995	$ 105,693	$ 40,302	38%	$ 105,693	$ 71,915	$ 33,778	47%
Product	14,510	8,833	5,677	64%	8,833	6,962	1,871	27%
Total revenues	$ 160,505	$ 114,526	$ 45,979	40%	$ 114,526	$ 78,877	$ 35,649	45%

Services revenues increased by $40.3 million and $33.8 million or 38% and 47% from fiscal years 2012 to 2013 and from 2011 to 2012, respectively. The increases from fiscal years 2012 to 2013 and from 2011 to 2012 were primarily due to the acquisition of new customers and an increase in the number of users within our existing customer base. In addition, our services revenues mix contained a higher proportion of RingCentral Office customers in each successive period, which carry a higher monthly subscription rate versus our other service offerings. While the acquisition of new customers and the increase in the number of users within our existing customer base were the primary reasons for the increase, the trends for these factors have varied from period to period as some customers made a small initial user subscription followed by a larger additional user subscription, while other customers made a large initial user subscription followed by a smaller additional user subscription. In addition, the period of time between a customer's initial subscription and the purchase of additional subscriptions also varied significantly, ranging from one month to a few years. The overall growth in our customer base was primarily driven by increased brand awareness of our services, driven by increases in our sales and marketing expenditures of 33% and 58% from 2012 to 2013 and from 2011 to 2012, respectively, which include advertising and sales personnel expenditures that we believe helped to facilitate increased customer acceptance of our services.

Product revenues increased by $5.7 million and $1.9 million, or 64% and 27%, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, respectively. The increases were primarily due to increased phone sales driven by the growth of new customers of RingCentral Office to which we sell more phones compared to customers that purchase our other service offerings.

Cost of Revenues and Gross Margin

	Year Ended December 31,				Year Ended December 31,			
	2013	2012	$ Change	% Change	2012	2011	$ Change	% Change
Cost of revenues:								
Services	$ 47,230	$ 36,215	$ 11,015	30%	$ 36,215	$ 26,475	$ 9,740	37%
Product	14,289	8,688	5,601	64%	8,688	6,523	2,165	33%
Total cost of revenues	$ 61,519	$ 44,903	$ 16,616	37%	$ 44,903	$ 32,998	$ 11,905	36%
Percentage of revenue	38%	39%			39%	42%		
Gross margin %	62%	61%			61%	58%		

Cost of services revenues increased by $11.0 million and $9.7 million, or 30% and 37% from fiscal years 2012 to 2013 and from 2011 to 2012, respectively. The increases from fiscal years 2012 to 2013 and from 2011 to 2012 were primarily due to: increases of $3.7 million and $3.9 million in personnel costs for employees and contractors, respectively; increases of $2.4 million and $1.7 million in depreciation expense, respectively; and increases of $3.7 million and $4.2 million in third-party telecommunications service provider fees, respectively. The higher personnel costs, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, were primarily due to 12% and 27% increases in headcount, respectively. The increases in headcount and other expense categories were driven primarily by investments in our infrastructure and capacity to improve the availability of our service offerings, while also supporting the growth in new customers and increased usage of our services by our existing customer base.

Cost of product revenues increased by $5.6 million and $2.2 million, or 64% and 33% from fiscal years 2012 to 2013 and from 2011 to 2012, respectively. The increases from fiscal years 2012 to 2013 and from 2011 to 2012 were due to increases in phone sales, which were primarily driven by the growth in new RingCentral Office customers.

Our gross margin percentages were 62%, 61% and 58% for fiscal years 2013, 2012 and 2011, respectively. The sequential improvements in gross margin, period over period, were primarily due to a reduction in per usage fees that we paid to third-party telecommunications service providers as a result of increased call traffic, economies of scale obtained in our operations personnel and infrastructure, partially offset by increased product sales which carry low to negative gross margin percentages.

Research and Development

	Year Ended December 31,				Year Ended December 31,			
	2013	2012	$ Change	% Change	2012	2011	$ Change	% Change
Research and development	$ 33,399	$ 24,450	$ 8,949	37%	$ 24,450	$ 12,199	$ 12,251	100%
Percentage of total revenues	21%	22%			22%	16%		

Research and development expenses increased by $8.9 million and $12.2 million, or 37% and 100% from fiscal years 2012 to 2013 and from 2011 to 2012, respectively. The increases from fiscal years 2012 to 2013 and from 2011 to 2012 were primarily due to increases in personnel costs for employees and contractors of $6.2 million and $11.2 million, including increased share-based compensation expenses of $0.7 million and $0.6 million, respectively. The higher personnel costs, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, were primarily due to 24% and 114% increases in headcount, respectively. The increases in research and development headcount were in support of the development of additional software development projects for our cloud-based and mobile applications.

Sales and Marketing

	Year Ended December 31,				Year Ended December 31,			
	2013	2012	$ Change	% Change	2012	2011	$ Change	% Change
Sales and marketing	$ 72,336	$ 54,566	$ 17,770	33%	$ 54,566	$ 34,550	$ 20,016	58%
Percentage of total revenues	45%	48%			48%	44%		

Sales and marketing expenses increased by $17.8 million and $20.0 million, or 33% and 58% from fiscal years 2012 to 2013 and from 2011 to 2012, respectively, were primarily due to: increases in personnel costs for employees and contractors of $8.7 million and $7.1 million, respectively, including higher share-based compensation expenses of $0.7 million and $0.4 million, respectively; and increases in other sales and marketing related activities of $6.5 million and $10.7 million, respectively. The higher personnel costs, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, were primarily due to 31% and 62% increases in headcount, respectively, as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. The increases in other sales and marketing related activities, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, respectively, were primarily due to increases in third-party sales commissions of $3.3 million and $2.4 million, and increases in internet advertising costs of $1.4 million and $4.8 million, respectively. The increases in sales and marketing expenses were necessary to support our growth strategy to acquire new customers and establish brand recognition to achieve greater penetration into the North America market.

General and Administrative

	Year Ended December 31,				Year Ended December 31,			
	2013	2012	$ Change	% Change	2012	2011	$ Change	% Change
General and administrative	$ 34,284	$ 24,434	$ 9,850	40%	$ 24,434	$ 12,969	$ 11,465	88%
Percentage of total revenue	21%	21%			21%	16%		

General and administrative expenses increased by $9.9 million or 40% from fiscal years 2012 to 2013. The increase was primarily due to an increase in personnel costs for employees and contractors of $8.2 million, including higher share-based compensation expenses of $2.8 million; and an increase of $2.0 million related to legal settlement costs net of insurance recoveries. The higher personnel costs for fiscal 2013 were driven by a 37% increase in headcount engaged in administrative functions. The increase in legal settlement costs was driven by an intellectual property matter that was settled in 2013 and is described further under "Item 3—Legal Proceedings" in this Annual Report on Form 10-K and in Note 5 to our consolidated financial statements.

General and administrative expenses increased by $11.5 million or 88% from fiscal years 2011 to 2012. The increase was primarily due to an increase in personnel costs for employees and contractors of $6.5 million, including share-based compensation expenses of $0.9 million, and an increase in fees for professional services of $1.2 million. The higher personnel costs for fiscal year 2012 were driven by a 65% increase in headcount engaged in administrative functions. The higher professional fees in fiscal year 2012 primarily related to legal and accounting costs we incurred to improve accounting and legal compliance for public company readiness. In addition, we incurred legal settlement costs of $1.1 million and the cost of certain taxes on revenue-producing transactions that exceeded amounts collected from customers of $1.1 million in 2012. As a percentage of our total revenues, general and administrative expenses increased from 16% for fiscal 2011 to 21% for fiscal 2012.

Other Income and Expense, net

	Year Ended December 31,				Year Ended December 31,			
	2013	2012	$ Change	% Change	2012	2011	$ Change	% Change
Other income (expense), net:								
Interest expense	$ (5,384)	$ (1,503)	$ (3,881)	258%	$ (1,503)	$ (158)	$ (1,345)	851%
Other income (expense), net	274	32	242	756%	32	109	(77)	-71%
Other income (expense), net	$ (5,110)	$ (1,471)	$ (3,639)	247%	$ (1,471)	$ (49)	$ (1,422)	2,902%

The increases in other income (expense), net, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, respectively, were primarily due to higher interest expense. The increase in interest expense, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, respectively were primarily due to higher levels of debt outstanding. At December 31, 2013, 2012 and 2011, there was $34.2 million, $20.1 million, and $0.6 million of total debt outstanding, respectively.

Liquidity and Capital Resources

As of December 31, 2013, our principal sources of liquidity were cash and cash equivalents totaling $116.4 million, which were held for working capital purposes. Our cash and cash equivalents are comprised primarily of money market funds. To date, we have financed our operations primarily through private placements of our preferred stock, proceeds from issuance of debt, proceeds from our initial public offering ("IPO") completed in October 2013, and sales to our customers. We believe that our existing liquidity sources will satisfy our cash requirements for at least the next 12 months.

On October 2, 2013, we closed our IPO in which 8,625,000 shares of Class A common stock, which included 8,545,000 shares of Class A common stock sold by us, and 80,000 shares of Class A common stock sold by the selling stockholders, were sold at a price of $13.00 per share. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-190815) (the "Registration Statement"). We did not receive any proceeds from the sales of shares by the selling stockholders. The total gross proceeds from the offering to us after deducting underwriting discounts and commissions of $7.8 million and offering expenses payable by us of $4.0 million, were $99.3 million.

A significant majority of our customers are on 30-day subscription periods and billed at the beginning of each subscription period via credit card. Some of our customers enter into subscription periods longer than 30 days. A small number of our customers are invoiced net 30 days. Therefore, a substantial source of our cash provided by operating activities is our deferred revenue, which is included on our consolidated balance sheets as a liability. Deferred revenue consists of the unearned portion of billed fees for our software subscriptions, which we recognize as revenue in accordance with our revenue recognition policy. As of December 31, 2013 and 2012, we had deferred revenue of $16.6 million and $11.3 million, respectively. We will recognize this deferred revenue when all of the revenue recognition criteria are met.

As of December 31, 2013, the carrying value of notes payable totaled $34.2 million. The balance consists of $15.0 million under a Loan and Security Agreement with Silicon Valley Bank,or SVB, $10.4 million under a revolving line of credit pursuant to an amended loan and security agreement with SVB dated August 14, 2013, or Amended SVB Credit Agreement, $5.0 million from TriplePoint Capital LLC,or TriplePoint under an equipment loan, $3.3 million from SVB under a capital growth loan, and $0.5 million from Somerset Capital to finance the purchase of software.

The table below, for the periods indicated, provides selected cash flow information (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Net cash flows provided by (used in):			
Operating activities	$ (23,771)	$ (15,015)	$ (779)
Investing activities	(10,919)	(10,172)	(6,664)
Financing activities	113,233	49,475	9,887
Effect of exchange rate changes	(29)	(1)	(4)
Net increase in cash and cash equivalents	$ 78,514	$ 24,287	$ 2,440

Net Cash Used in Operating Activities

Cash used in operating activities is significantly influenced by the amount of cash we invest in personnel and infrastructure to support the anticipated growth of our business, the increase in the number of customers using our cloud-based software, and the amount and timing of customer payments. For all of the periods presented, we experienced increases in customer acquisition costs combined with increases in investments in personnel and infrastructure, all of which have significantly exceeded the growth in our customer base, driving net losses from operations. Cash used in operating activities has historically come from net losses offset by non-cash expense items, such as depreciation and amortization of property and equipment, and share-based compensation, as well as working capital sources of cash driven by increases in accounts payable, accrued liabilities and deferred revenue. As we continue to invest in personnel and infrastructure to support the anticipated growth of our business, we expect to continue to use cash in our operating activities.

Net cash used in operating activities increased by $8.8 million from fiscal 2012 to 2013 primarily due to: a $11.5 million decrease in source of cash from accrued liabilities; an increase in net loss from operations of $10.7 million; and an increase in use of cash of $2.0 million in inventory. These uses of cash were offset by: a $9.3 million increase in non-cash charges, including depreciation, amortization, share-based compensation expense, non-cash interest and other expense related to debt; a $3.0 million increase in source of cash from deferred revenue; and a decrease in use of cash of $1.9 million in accounts receivable. The increases in accrued liabilities, net loss, inventory, and depreciation and amortization expense reflect the additional investments necessary to support the growing requirements of our research and development, sales and marketing, data center, and customer support operations functions.

Net cash used in operating activities increased by $14.2 million from fiscal 2011 to 2012, primarily due to an increase in net loss from operations of $21.5 million, an increase of $2.0 million in accounts receivable, an increase of $2.2 million in prepaid expenses and other current assets and a decrease of $3.6 million in accounts payable. These uses were offset by an increase of $10.3 million in accrued liabilities and an increase of $4.6 million in non-cash charges, including depreciation, amortization and share-based compensation expense. The increases in net loss, accounts receivable, prepaid expenses, accrued liabilities and depreciation and amortization expense reflect the additional investments necessary to support the growing requirements of our research and development, sales and marketing, data center, and customer support operations functions.

Net Cash Used in Investing Activities

Our primary investing activities have consisted of capital expenditures to purchase equipment necessary to support our data center facilities and our network and other operations. As our business grows, we expect our capital expenditures to continue to increase.

The increases in net cash used in investing activities, period over period, from fiscal years 2012 to 2013 and from 2011 to 2012, respectively, were primarily due to increases of $0.6 million and $3.5 million in purchase volumes of property and equipment, respectively. Additional investments in capital equipment were necessary to support additional capacity in our platform to support our increasing customer base, as well to support the increase in headcount levels in all functions of our business.

Net Cash Provided by Financing Activities

Our primary financing activities have consisted of private placements of our preferred stock, proceeds from issuance of debt and capital lease obligations, as well as proceeds from our IPO completed in October 2013.

Net cash provided by financing activities increased during fiscal 2013 by $63.8 million from fiscal 2012 to 2013, primarily due to $99.3 million in proceeds from our IPO in October 2013, and a $13.3 million increase in proceeds from term loans entered into in 2013, offset by a $29.9 million decrease in proceeds from issuance of preferred stock, and a $21.0 million increase in principal repayments of term loans and capital lease obligations.

Net cash provided by financing activities increased during fiscal 2012 by $39.6 million from fiscal 2011 to 2012, primarily due to a $19.5 million increase in proceeds from the sale of preferred stock in 2012, and $24.5 million in proceeds from the term loans, offset by a $4.7 million increase in principal repayments of term loans and capital lease obligations.

Backlog

We have generally signed monthly and annual subscription contracts for our services. The timing of our invoices to our customers is a negotiated term and thus varies among our service contracts. For multiple-year agreements, it is common to invoice an initial amount at contract signing followed by subsequent annual invoices. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, we do not recognize them as revenues, unearned revenue or elsewhere in our consolidated financial statements. The change in backlog that results from changes in the average non-cancelable term of our subscription arrangements may not be an indicator of the likelihood of renewal or expected future revenues and therefore we do not utilize backlog as a key management metric internally and do not believe that it is a meaningful measurement of our future revenues.

Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2013 (in thousands):

	Payments due by period				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Operating lease obligations	$ 2,724	$ 3,874	$ 435	$ -	$ 7,033
Capital lease obligations	388	258	-	-	646
Short- and long-term debt obligations	9,910	20,670	4,063	-	34,643
Purchase obligations	6,092	-	-	-	6,092
Total	$ 19,114	$ 24,802	$ 4,498	$ -	$ 48,414

Purchase obligations represent an estimate of all open purchase orders and contractual obligations in the normal course of business for which we have not received the goods or services as of December 31, 2013. Although open purchase orders are considered enforceable and legally binding, except for our purchase orders with our inventory suppliers, the terms generally allow us the option to cancel, reschedule, and adjust our requirements based on our business needs prior to the delivery of goods or performance of services. Our purchase orders with our inventory suppliers are non-cancellable. In addition, we have other obligations for goods and services that we enter into in the normal course of business. These obligations, however, are either not enforceable or legally binding, or are subject to change based on our business decisions. The aggregate of these items represents our estimate of purchase obligations.

Silicon Valley Bank Credit Facility

In August 2013, we entered into our Amended SVB Credit Agreement, which provides for a revolving line of credit of up to $15.0 million and a mezzanine term loan of up to $5.0 million. The revolving line of credit bears interest at a floating annual rate of prime plus 2.0%, which must be paid monthly, and all outstanding principal and unpaid interest must be repaid by August 13, 2015. The mezzanine term loan bears interest at a fixed annual rate of 11.0%, which must be paid monthly, and all principal amounts and unpaid interest must be repaid by August 1, 2016, unless we voluntarily repay the balance at an earlier date without penalty. A final payment of 2.75% of the amount advanced under the mezzanine term loan is due upon repayment of this loan at maturity or prepayment of this loan. On August 14, 2013, we borrowed $10.8 million under the revolving line of credit, which represented our full available borrowing capacity on that date. The borrowing limit available under the revolving line of credit increases as the principal balance of our capital growth $8.0 million term loan borrowed from SVB in March 2012 is repaid. The capital growth term loan had an outstanding principal balance of $4.2 million when we entered into our Amended SVB Credit Agreement. On August 16, 2013, we borrowed the full $5.0 million available under the mezzanine term loan.

In connection with our Amended SVB Credit Agreement, we issued SVB warrants to purchase 90,324 shares of our Series E preferred stock at an exercise price of $9.69 per share. As the Series E preferred stock warrants were issued in connection with a loan, the proceeds were allocated to the loan and the warrants based on the relative fair value of the instruments resulting in a loan discount of $0.9 million being recorded. The fair value of the Series E preferred stock warrants was measured at issuance using the Black-Scholes-Merton option pricing model with the following assumptions: expected volatility of 60%, expected life of 10.0 years, risk free interest rate of 2.7%, dividend yield of 0.00%, and fair value of Series E preferred stock of $12.86 per share. Upon the filing of our Certificate of Incorporation in Delaware on September 26, 2013 in connection with our IPO, the Series E preferred stock and preferred stock warrants were converted into Class B common stock and warrants to purchase Class B common stock, respectively. We have pledged all of our assets, excluding intellectual property, as collateral to secure our obligations under our Amended SVB Credit Agreement.

On December 31, 2013, we refinanced some of our outstanding debt as described below, to lower the interest rate on such debt (the "Refinancing"). In connection with the Refinancing, on December 31, 2013, we entered into a Second Amendment to our Amended SVB Credit Agreement (the "Amendment") with SVB. The Amendment amends the terms of our existing Amended SVB Credit Agreement and provides for an additional term loan in the principal amount of up to $15.0 million (the "New SVB term loan"), all of which we borrowed from SVB on December 31, 2013.

The proceeds of the New SVB term loan were used to repay the SVB $5.0 million mezzanine term loan we borrowed from SVB on August 16, 2013, and all of the outstanding term loans under the Growth Capital Loan and Security Agreement dated June 22, 2012 with TriplePoint, as amended. Amounts repaid under the prior term loans cannot be reborrowed and upon repayment, all obligations under the prior term loans have terminated. In connection with the Refinancing, we recognized a loss on the early extinguishment of previously outstanding debt of $1,833,000. The loss which has been charged to interest expense in the statement of operations, is composed of $1,342,000 of non-cash interest expense related to the write-off of unamortized loan discounts and debt issuance costs and $491,000 of cash interest expense related to unaccrued end of term interest payments due upon pre-payment.

The New SVB term loan bears interest at an annual rate of, our option, (i) prime rate as reported in The Wall Street Journal plus a margin of 0.75% or 1.00% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.75% or 4.00%, in each case such margin being determined based on the average cash balances maintained with Lender or Lender's affiliates for the preceding month. Interest is due and payable in arrears monthly for prime rate loans and at the end of an interest period for LIBOR rate loans. Principal is required to be repaid in 48 equal monthly installments. The new term loan is subject to substantially the same affirmative and negative covenants and events of default as the Amended SVB Credit Agreement.

The Amendment amends the interest rate of the revolving line of credit under the Amended SVB Credit Agreement to an annual rate of, at our option option, (i) prime rate as reported in The Wall Street Journal plus a margin of 0.25% or 0.50% or (ii) adjusted LIBOR rate (based on one, two, three or six-month interest periods) plus a margin of 3.25% or 3.50%, in each case such margin being determined based on the average cash balances maintained with Lender or Lender's affiliates for the preceding month.

Our Amended SVB Credit Agreement contains customary negative covenants that limit our ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The Amended SVB Credit Agreement also contains customary affirmative covenants, which were amended by the Amendment in December 2013, including requirements to, among other things, (i) maintain minimum cash balances representing the greater of $10,000,000 or three times our quarterly cash burn rate, as defined in the Amended SVB Credit Agreement , and (ii) maintain minimum EBITDA levels, as determined in accordance with the Amended SVB Credit Agreement. We were in compliance with all covenants under its credit agreement with SVB as of December 31, 2013.

TriplePoint Capital Credit Facility

In June 2012, we entered into a growth capital loan and security agreement and an equipment loan and security agreement with TriplePoint. Under the growth capital loan and security agreement, we borrowed $6.0 million in term loans in June 2012, or growth capital loan part I, equal to the full lending commitment available at the time. The growth capital loan part I is required to be repaid in 33 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 8.5% after an interest-only period of three months. In addition, a final terminal payment is due at maturity equal to 4.0% of the original loan principal. In connection with the debt Refinancing described above, we fully repaid the growth capital loan part I on December 31, 2013.

Under the equipment loan and security agreement, we borrowed $9.7 million in term loans in August 2012 from the $10.0 million lending commitment available at the time. The equipment term loans are required to be repaid in 36 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 5.75%. In addition, a final terminal payment is due at maturity equal to 10% of the original loan principal. The equipment loan was not impacted by the debt Refinancing and had an outstanding principle balance of $5.0 million at December 31, 2013.

Under the growth capital loan and security agreement, we were permitted to borrow an additional $4.0 million on or before June 21, 2013 upon the submission of a Form S-1 registration statement to the SEC contemplating an IPO of our common stock with expected total net proceeds of at least $50.0 million. On June 21, 2013, we achieved the milestone necessary to access the additional $4.0 million available under the original terms of the growth capital loan and security agreement and borrowed $4.0 million, or growth capital loan part II. The growth capital loan part II is required to be repaid in 33 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 8.5% after an interest-only period of 3 months, which accrues at a fixed rate of 9.0%. In addition, a final terminal payment is due at maturity equal to 4.0% of the original loan principal. In connection with the debt Refinancing described above, we fully repaid the growth capital loan part II on December 31, 2013.

In connection with the growth capital loan part II, we issued to TriplePoint a warrant to purchase 33,192 shares of Series D preferred stock with the exercise price set at the lower of: $6.03 per share or the lowest price per share in the next round of equity financing. As the Series D preferred stock warrants were issued in connection with a loan, the proceeds were allocated to the loan and the warrants based on the relative fair value of the instruments resulting in a loan discount of $0.3 million being recorded. As a result of the variable exercise price feature, the Series D preferred stock warrants were recorded at fair value and classified as liabilities at issuance, with changes in fair value recognized in other income and expense for the period the warrants remained classified as liabilities. The fair value of the Series D preferred stock warrants was reclassified to stockholders' equity on September 26, 2013, the date of the filing of our Certificate of Incorporation in Delaware in connection with our IPO, when the Series D preferred stock and preferred stock warrants were converted into Class B common stock and warrants to purchase Class B common stock, respectively. The fair value of the Series D preferred stock warrants was measured at issuance using the Black-Scholes-Merton option pricing model with the following assumptions: expected volatility of 55%; expected life of 7.0 years; risk free interest rate of 1.9%; dividend yield of 0.00%; and fair value of Series D preferred stock of $11.41 per share.

In August 2013, we amended the growth capital loan and security agreement with TriplePoint to provide an additional $5.0 million term loan, or growth capital loan part III. In September 2013, we entered into a second amendment to the growth capital loan facility to adjust the repayment terms such that the growth capital loan part III is required to be paid over 36 months as follows: 36 months of interest-only payments at a fixed annual rate of 11.0% and the loan principal at maturity. In addition, a final payment of 2.75% of the original principal amount is due at maturity, which is August 13, 2016, or upon prepayment of this loan. On August 19, 2013, we borrowed the full $5.0 million available under this term loan. In connection with the debt Refinancing described above, we fully repaid the growth capital loan part III on December 31, 2013.

In connection with the growth capital loan part III, we issued to TriplePoint a warrant to purchase 51,614 shares of Series E preferred stock at an exercise price set at the lower of: $9.69 per share or the lowest price per share in the next round of equity financing. As the Series E preferred stock warrants were issued in connection with a loan, the proceeds were allocated to the loan and the warrants based on the relative fair value of the instruments resulting in a loan discount of $0.5 million being recorded. As a result of the variable exercise price feature, the Series E preferred stock warrants were recorded at fair value and classified as liabilities at issuance, with changes in fair value recognized in other income and expense for the period the warrants remained classified as liabilities. The fair value of the Series E preferred stock warrants was reclassified to stockholders' equity on September 26, 2013, the date of the filing of our Certificate of Incorporation in Delaware in connection with our IPO, when the Series E preferred stock and preferred stock warrants were converted into Class B common stock and warrants to purchase Class B common stock, respectively. The fair value of the Series E preferred stock warrants was measured at issuance using the Black-Scholes-Merton option pricing model with the following assumptions: expected volatility of 60%; expected life of 10.0 years; risk free interest rate of 2.7%; dividend yield of 0.00%; and fair value of Series E preferred stock of $12.86 per share.

The TriplePoint equipment loan and security agreement contains customary negative covenants that limit our ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The TriplePoint equipment loan and security agreement also contains customary affirmative covenants, including requirements to, among other things, deliver audited financial statements. We were in compliance with all covenants under our credit agreements with TriplePoint as of December 31, 2013.

Indemnification Obligations

Certain of our agreements with sales agents, resellers and customers include provisions for indemnification against liabilities if our services infringe a third party's intellectual property rights. To date, we have not incurred any material costs as a result of such indemnification provisions and have not accrued any liabilities related to such obligations in the consolidated financial statements as of December 31, 2013.

EXHIBIT D

FINANCIAL STATEMENTS - 2013 10-Q

Excerpts of Ring Central, Inc. 10-Q dated 09-30-2013. For a full copy of the 10-Q, see http://ir.ringcentral.com/doc.aspx?IID=4406983&DID=25886383

RNG 10-Q 9/30/2013

Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from______ to______
Commission File Number: 001-36089

RingCentral, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-3322844**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 Fashion Island Boulevard, Suite 700
San Mateo, California 94404
(Address of principal executive offices)

(650) 472-4100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐		Accelerated filer	☐
Non-accelerated filer	☒	(do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 4, 2013, there were 8,625,000 shares of Class A Common Stock issued and outstanding and 53,609,008 shares of Class B Common Stock outstanding.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in, but not limited to, the sections titled "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts", "projects," "should," "will," "would" or similar expressions and the negatives of those terms. Forward-looking statements include, but are not limited to, statements about:

- our future financial performance;
- our anticipated growth and growth strategies and our ability to effectively manage that growth and effect these strategies;
- anticipated trends, developments and challenges in our business and in the markets in which we operate;
- our ability to anticipate and adapt to future changes in our industry;
- our ability to anticipate market needs and develop new and enhanced products and services to meet those needs, and our ability to successfully monetize them;
- maintaining and expanding our customer base
- maintaining, expanding and responding to changes in our relationships with other companies;
- the impact of competition in our industry and innovation by our competitors;
- our ability to sell our products;
- our ability to expand internationally;
- the impact of seasonality on our business;
- the impact of any failure of our solutions or solution innovations;
- our reliance on our third-party service providers;
- the potential effect on our business of litigation to which we may become a party;
- our liquidity and working capital requirements;
- the estimates and estimate methodologies used in preparing our consolidated financial statements

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in the section entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	September 30, 2013	December 31, 2012
Assets:		
Current assets:		
Cash and cash equivalents	$ 25,452	$ 37,864
Accounts receivable, net	2,492	2,690
Inventory	2,034	833
Prepaid expenses and other current assets	11,656	3,408
Total current assets	41,634	44,795
Property and equipment, net	17,301	17,008
Other assets	1,828	1,551
Total assets	$ 60,763	$ 63,354
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 6,494	$ 4,553
Accrued liabilities	20,484	21,487
Current portion of capital lease obligation	338	312
Current portion of long-term debt	9,617	7,636
Deferred revenue	15,573	11,291
Total current liabilities	52,506	45,279
Long-term debt	27,777	12,428
Sales tax liability	4,003	3,877
Capital lease obligation	365	703
Other long-term liabilities	1,422	996
Total liabilities	86,073	63,283
Commitments and contingencies (Note 5)		
Shareholders' equity (deficit):		
Convertible preferred stock	—	74,020
Common stock	5	2
Additional paid-in capital	91,228	9,791
Accumulated other comprehensive loss	(154)	(85)
Accumulated deficit	(116,389)	(83,657)
Total shareholders' equity (deficit)	(25,310)	71
Total liabilities and shareholders' equity (deficit)	$ 60,763	$ 63,354

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Services	$ 37,925	$ 27,290	$ 104,669	$ 74,989
Product	4,009	2,298	10,494	6,412
Total revenues	41,934	29,588	115,163	81,401
Cost of revenues:				
Services	12,080	9,191	34,178	26,310
Product	3,888	2,041	10,189	6,223
Total cost of revenues	15,968	11,232	44,367	32,533
Gross profit	25,966	18,356	70,796	48,868
Operating expenses:				
Research and development	8,150	6,544	24,260	17,582
Sales and marketing	18,889	13,781	52,355	39,625
General and administrative	7,078	7,069	24,859	19,147
Total operating expenses	34,117	27,394	101,474	76,354
Loss from operations	(8,151)	(9,038)	(30,678)	(27,486)
Other income (expense), net:				
Interest expense	(995)	(553)	(2,222)	(784)
Other income (expense), net	348	48	102	20
Other income (expense), net	(647)	(505)	(2,120)	(764)
Loss before provision (benefit) for income taxes	(8,798)	(9,543)	(32,798)	(28,250)
Provision (benefit) for income taxes	54	25	(66)	57
Net loss	$ (8,852)	$ (9,568)	(32,732)	$ (28,307)
Net loss per common share:				
Basic and diluted	$ (0.36)	$ (0.43)	$ (1.41)	$ (1.27)
Weighted-average number of shares used in computing net loss per share:				
Basic and diluted	24,452	22,372	23,290	22,273

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	$ (8,852)	$ (9,568)	$ (32,732)	$ (28,307)
Other comprehensive loss:				
Foreign currency translation adjustments, net	(313)	(71)	(69)	(65)
Comprehensive loss	$ (9,165)	$ (9,639)	$ (32,801)	$ (28,372)

See accompanying notes to condensed consolidated financial statements

RINGCENTRAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities:		
Net loss	$ (32,732)	$ (28,307)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,606	4,389
Share-based compensation	4,546	1,984
Noncash interest and other expense related to warrants issued in connection with debt agreements	412	169
Changes in assets and liabilities		
Accounts receivable	198	(749)
Inventory	(1,202)	435
Prepaid expenses and other current assets	(4,340)	(2,123)
Other assets	(200)	(405)
Accounts payable	1,652	(3,387)
Accrued liabilities	(366)	13,175
Deferred revenue	4,283	2,226
Other liabilities	553	544
Net cash used in operating activities	(20,590)	(12,049)
Cash flows from investing activities:		
Purchases of property and equipment	(9,024)	(6,620)
Restricted investments	(130)	—
Net cash used in investing activities	(9,154)	(6,620)
Cash flows from financing activities:		
Net proceeds from debt agreements	22,907	24,538
Proceeds from preferred stock warrants issued in connection with debt agreements	1,625	501
Repayment of debt	(5,928)	(3,039)
Repayment of capital lease obligations	(312)	(576)
Payment of deferred initial public offering costs	(1,773)	—
Proceeds from exercise of stock options and common stock warrants	835	403
Net cash provided by financing activities	17,354	21,827
Effect of exchange rate changes on cash and cash equivalents	(22)	(2)
Net increase (decrease) in cash and cash equivalents	(12,412)	3,156
Cash and cash equivalents:		
Beginning of period	37,864	13,577
End of period	$ 25,452	$ 16,733
Supplemental disclosure of cash flow data:		
Cash paid for interest	$ 1,187	$ 476
Cash paid for income taxes	31	54
Noncash financing activities:		
Change in liability for unvested exercised options	$ 95	$ 11
Issuance of common stock in connection with legal settlement	257	—
Deferred debt issuance cost recorded in connection with issuance of preferred stock warrants	—	122
Accrued liability for deferred initial public offering costs	2,135	—
Conversion of convertible preferred stock into common stock	74,020	—
Reclassification of preferred stock warrants from liability to equity	820	—
Equipment purchased and unpaid at period end	570	702
Equipment purchased under capital lease	—	1,329

See accompanying notes to condensed consolidated financial statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business

RingCentral, Inc. ("the Company") is a provider of software-as-a-service ("SaaS") solutions for business communications. The Company was incorporated in California in 1999 and was reincorporated in Delaware on September 26, 2013. The Delaware Certificate of Incorporation provides for two classes of common stock upon the effectiveness of our initial public offering ("IPO"): Class A and Class B common stock, both with a par value of $0.0001 per share. Holders of our Class A common stock and Class B common stock have identical rights, however that holders of Class A common stock are entitled to one vote per share of Class A common stock and holders of Class B common stock are entitled to 10 votes per share of Class B common stock on all matters submitted to the stockholders for approval. The shareholders' equity section of the Company's condensed consolidated balance sheets have been prepared to conform with Delaware law for all periods presented. The Company is headquartered in San Mateo, California.

Initial Public Offering

On October 2, 2013, the Company closed its IPO and sold 8,625,000 shares of Class A common stock to the public, including the underwriters' overallotment option of 1,125,000 shares of Class A common stock and 80,000 shares of Class A common stock sold by selling stockholders, at a price of $13.00 per share. The Company received aggregate proceeds of $103,309,000 from the IPO, net of underwriters' discounts and commissions, but before deduction of offering expenses of approximately $3,909,000. The net proceeds and other impacts of the IPO described above are not reflected in the condensed consolidated financial statements at September 30, 2013, as the Company received the proceeds following the end of the fiscal quarter. Upon effectiveness of the Company's registration statement on Form S-1 (the "Registration Statement") and the filing of the Certificate of Incorporation in Delaware on September 26, 2013, all shares of the Company's outstanding convertible preferred stock automatically converted into 30,368,527 shares of Class B common stock, and all shares of the Company's outstanding common stock automatically converted into 23,316,877 shares of Class B common stock, resulting in 53,685,404 total shares of Class B common stock outstanding at September 30, 2013. Immediately following the closing of the IPO, the Company had 8,625,000 shares of Class A common stock and 53,605,404 shares of Class B common stock outstanding.

Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes of the Company reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2013. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission ("SEC").

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements and related notes presented in the Company's final prospectus filed with the SEC on September 27, 2013 pursuant to Rule 424(b) of the Securities Act of 1933 ("the final prospectus"). There have been no changes in the Company's significant accounting policies from those that were disclosed in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2012 included in the Company's final prospectus for its IPO.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management affect revenue, accounts receivable, the allowance for doubtful accounts, inventory and inventory reserves, share-based compensation, capitalized software development costs, provision for income taxes, uncertain tax positions, loss contingencies and accrued liabilities. Management periodically evaluates such estimates and they are adjusted prospectively based upon such periodic evaluation. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The new guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. This new accounting pronouncement is effective for interim and fiscal reporting periods beginning after December 15, 2012, with early adoption permitted. The Company has adopted this standard during the first quarter of 2013. The adoption of this standard expanded the consolidated financial statement footnote disclosures, however there were no amounts reclassified out of accumulated other comprehensive income in any period presented.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The new guidance requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The Company did not early adopt this pronouncement. The ASU should be applied prospectively to all UTBs that exist at the effective date. Retrospective application is permitted. The Company does not expect the adoption of this guidance to have any significant impact on the Company's consolidated financial statements.

Note 2. Financial Statement Components

Cash and cash equivalents consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Cash	$ 13,220	$ 3,599
Money market funds	12,232	34,265
Total cash and cash equivalents	$ 25,452	$ 37,864

Accounts receivable, net consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Accounts receivable-trade	$ 1,784	$ 2,683
Unbilled accounts receivable-trade	833	440
Allowance for doubtful accounts	(125)	(433)
Accounts receivable, net	$ 2,492	$ 2,690

Prepaid expenses and other current assets consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Deferred initial public offering costs	$ 3,909	$ —
Settlements receivable from credit card transaction processors	2,535	1,626
Other non-trade receivables from third parties	2,268	24
Prepaid expenses	2,656	1,596
Other current assets	288	162
Total prepaid expenses and other current assets	$ 11,656	$ 3,408

Property and equipment, net consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Computer hardware and software	$ 33,402	$ 27,292
Furniture and fixtures	1,090	700
Leasehold improvements	845	441
Property and equipment, gross	35,337	28,433
Less: accumulated depreciation	(18,036)	(11,425)
Property and equipment, net	$ 17,301	$ 17,008

Accrued liabilities consisted of (in thousands):

	September 30, 2013	December 31, 2012
Accrued compensation and benefits	$ 4,066	$ 3,216
Accrued sales, use and telecom related taxes	4,399	4,580
Accrued initial public offering costs	2,100	—
Accrued expenses	8,451	11,998
Accrued legal settlements	750	1,075
Other	718	618
Total accrued liabilities	$ 20,484	$ 21,487

Note 3. Fair Value of Financial Instruments

The Company carries certain financial assets consisting of money market funds and certificates of deposit at fair value on a recurring basis. Fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1: Observable inputs which include unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and that are based on management's assumptions, including fair value measurements determined by using pricing models, discounted cash flow methodologies or similar techniques.

The fair value of assets carried at fair value was determined using the following inputs (in thousands):

	Balance at September 30, 2013	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 12,232	$ 12,232	$ —	$ —
Other assets:				
Certificates of deposit	$ 630	$ —	$ 630	$ —

	Balance at December 31, 2012	(Level 1)	(Level 2)	(Level 3)
Cash equivalents:				
Money market funds	$ 34,265	$ 34,265	$ —	$ —
Other assets:				
Certificates of deposit	$ 500	$ —	$ 500	$ —

In June 2013 and August 2013, the Company issued preferred stock warrants in connection with debt agreements that were recorded as liabilities at issuance and were carried at fair value through September 26, 2013, the date of the effectiveness of the Registration Statement and the filing of its Certificate of Incorporation in Delaware, after which the fair value of these financial instruments were reclassified to shareholders' equity. The Company's preferred stock warrants automatically converted to common stock warrants upon the effectiveness of the Registration Statement and the filing of its Certificate of Incorporation in Delaware on September 26, 2013. The fair value of the warrants at the issuance dates in June 2013 and August 2013 were $265,000 and $495,000, respectively. The fair value of the June 2013 and August 2013 warrants at the date of reclassification were $320,000 and $500,000, respectively. The fair value of preferred stock warrants was determined by the Black-Scholes option pricing model which is a technique using level 3 inputs which are detailed in Note 4.

The Company's other financial instruments, including accounts receivable, accounts payable and other current liabilities, are carried at cost which approximates fair value due to the relatively short maturity of those instruments. Based on borrowing rates available to the Company for loans with similar terms and considering our credit risks, the carrying value of debt approximates fair value.

Note 4. Debt

Loan and Security Agreement with Bank

In February 2009, the Company entered into a loan and security agreement with Silicon Valley Bank ("SVB") that was last amended in August 2013. Under this agreement the Company borrowed $2,500,000 on a term loan in January 2010 and $8,000,000 on a term loan in March 2012, which was equal to the full final lending commitment. The 2010 term loan was repaid in 30 equal monthly installments of principal and interest, which accrued at an annual fixed rate of 6.5%. In addition, a final terminal payment was made at maturity equal to 3.5% of the original loan principal. The 2010 term loan was repaid in full during the third quarter of 2012. The 2012 term loan is required to be repaid in 36 equal monthly installments of principal plus interest, which accrues at a floating annual rate equal to prime plus 2.75%. In addition, a final terminal payment is due at maturity equal to 0.5% of the original loan principal.

In August 2013, the Company entered into an amended loan and security agreement with SVB (the "Amended SVB Credit Agreement"), which provides for a revolving line of credit of up to $15,000,000 and a term loan of up to $5,000,000. The revolving line of credit bears interest at a floating annual rate of prime plus 2.0%, which must be paid monthly, and all outstanding principal and unpaid interest must be repaid by August 13, 2015. The term loan bears interest at a fixed annual rate of 11.0%, which must be paid monthly, and all principal amounts and unpaid interest must be repaid by August 1, 2016, unless the Company voluntarily repays the balance at an earlier date without penalty. A final payment of 2.75% of the amount advanced under the term loan is due upon repayment of this loan at maturity or prepayment of this loan. On August 14, 2013, the Company borrowed $10,778,000 under the revolving line of credit, which represented the full available borrowing capacity on that date. The borrowing limit available under the revolving line of credit increases as the principal balance of the existing $8,000,000 term loan from SVB is repaid subject to limits based on recurring subscription revenue. The Company does not expect this requirement will limit the amount of borrowings available under the line of credit. The existing term loan had an outstanding balance of $4,222,000 on the amendment date. At September 30, 2013, the principal balance and available borrowing capacity of the revolving line of credit were $10,778,000 and $222,000, respectively. On August 16, 2013, the Company borrowed the full $5,000,000 available under the new term loan.

In connection with the Amended SVB Credit Agreement, the Company issued SVB warrants to purchase 90,324 shares of its Series E preferred stock at an exercise price of $9.69 per share. As the Series E preferred stock warrants were issued in connection with a loan, the proceeds were allocated to the loan and the warrants based on the relative fair value of the instruments resulting in a loan discount of $866,000 being recorded, with a corresponding increase to additional paid in capital as part of shareholders' equity. The fair value of the Series E preferred stock warrants was measured at issuance using the Black-Scholes option pricing model with the following assumptions: (i) expected volatility of 60%, (ii) expected life of 10.0 years, (iii) risk free interest rate of 2.7%, (iv) dividend yield of 0.00%, and (v) fair value of Series E preferred stock of $12.86 per share. Upon the effectiveness of the Registration Statement and the filing of its Certificate of Incorporation in Delaware on September 26, 2013, the Series E preferred stock and preferred stock warrants were converted into Class B common stock and warrants to purchase Class B common stock, respectively.

The Company has pledged all of its assets, excluding intellectual property, as collateral to secure its obligations under the Amended SVB Credit Agreement. The Amended SVB Credit Agreement contains customary negative covenants that limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The Amended SVB Credit Agreement also contains customary affirmative covenants, including requirements to, among other things, (i) maintain minimum cash balances representing the greater of $5,000,000 or two times the Company's quarterly cash burn rate, as defined in the amended agreement, from and after the IPO, and (ii) deliver audited financial statements. The Company was in compliance with all covenants under its credit agreement with SVB as of September 30, 2013.

Loan and Security Agreements with Financial Institution

In June 2012, the Company entered into a growth capital loan and security agreement and an equipment loan and security agreement with TriplePoint Capital LLC ("TriplePoint"). Under the growth capital loan and security agreement, the Company borrowed $6,000,000 in term loans in June 2012, equal to the full lending commitment available at the time. The growth capital term loans are required to be repaid in 33 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 8.5% after an interest-only period of three months. In addition, a final terminal payment is due at maturity equal to 4.0% of the original loan principal. Under the equipment loan and security agreement, the Company borrowed $9,691,000 in term loans in August 2012 from the $10,000,000 lending commitment available at the time. The equipment term loans are required to be repaid in 36 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 5.75%. In addition, a final terminal payment is due at maturity equal to 10% of the original loan principal.

Under the growth capital loan and security agreement, the Company was permitted to borrow an additional $4,000,000 on or before June 21, 2013 upon the submission of a Form S-1 registration statement to the SEC contemplating an IPO of the Company's common stock with expected total net proceeds of at least $50,000,000. On June 21, 2013, the Company achieved the milestone necessary to access the additional $4,000,000 available under the original terms of the growth capital loan and security agreement and borrowed $4,000,000 ("growth capital loan part II"). The growth capital loan part II is required to be repaid in 33 equal monthly installments of principal and interest, which accrues at an annual fixed rate of 8.5% after an interest-only period of 3 months, which accrues at a fixed rate of 9.0%. In addition, a final terminal payment is due at maturity equal to 4.0% of the original loan principal.

In connection with the growth capital loan part II, the Company issued to TriplePoint a warrant to purchase 33,192 shares of Series D preferred stock with the exercise price set at the lower of: (i) $6.03 per share or (ii) the lowest price per share in the next round of equity financing. As the Series D preferred stock warrants were issued in connection with a loan, the proceeds were allocated to the loan the warrants based on the relative fair value of the instruments resulting in a loan discount of $265,000 being recorded. As a result of the variable exercise price feature, the Series D preferred stock warrants were recorded at fair value and classified as liabilities at issuance, with changes in fair value recognized in other income and expense for the period the warrants remained classified as liabilities. The fair value of the Series D preferred stock warrants was reclassified to shareholders' equity on

September 26, 2013, the date of the effectiveness of the Registration Statement and the filing of its Certificate of Incorporation in Delaware, when the Series D preferred stock and preferred stock warrants were converted into Class B common stock and warrants to purchase Class B common stock, respectively. The fair value of the Series D preferred stock warrants was measured at issuance using the Black-Scholes option pricing model with the following assumptions: (i) expected volatility of 55%, (ii) expected life of 7.0 years, (iii) risk free interest rate of 1.9%, (iv) dividend yield of 0.00%, and (v) fair value of Series D preferred stock of $11.41 per share.

In August 2013, the Company amended the growth capital loan and security agreement with TriplePoint to provide an additional $5,000,000 term loan ("growth capital loan part III"). In September 2013, the Company entered into a second amendment to the growth capital loan facility to adjust the repayment terms such that the term loan is required to be paid over 36 months as follows: 36 months of interest-only payments at a fixed annual rate of 11.0% and the loan principal at maturity. In addition, a final payment of 2.75% of the original principal amount is due at maturity, which is August 13, 2016, or upon prepayment of this loan. On August 19, 2013, the Company borrowed the full $5,000.000 available under this term loan.

In connection with growth capital loan part III, the Company issued to TriplePoint a warrant to purchase 51,614 shares of Series E preferred stock at an exercise price set at the lower of: (i) $9.69 per share or (ii) the lowest price per share in the next round of equity financing. As the Series E preferred stock warrants were issued in connection with a loan, the proceeds were allocated to the loan and the warrants based on the relative fair value of the instruments resulting in a loan discount of $495,000 being recorded. As a result of the variable exercise price feature, the Series E preferred stock warrants were recorded at fair value and classified as liabilities at issuance, with changes in fair value recognized in other income and expense for the period the warrants remained classified as liabilities. The fair value of the Series E preferred stock warrants was reclassified to shareholders' equity on September 26, 2013, the date of the effectiveness of the Registration Statement and the filing of its Certificate of Incorporation in Delaware, when the Series E preferred stock and preferred stock warrants were converted into Class B common stock and warrants to purchase Class B common stock, respectively. The fair value of the Series E preferred stock warrants was measured at issuance using the Black-Scholes option pricing model with the following assumptions: (i) expected volatility of 60%, (ii) expected life of 10.0 years, (iii) risk free interest rate of 2.7%, (iv) dividend yield of 0.00%, and (v) fair value of Series E preferred stock of $12.86 per share.

The TriplePoint growth capital loan and security agreement, as amended and equipment loan and security agreement contain customary negative covenants that limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate. The TriplePoint growth capital loan and security agreement, as amended and equipment loan and security agreement also contain customary affirmative covenants, including requirements to, among other things, deliver audited financial statements. The Company was in compliance with all covenants under its credit agreements with TriplePoint as of September 30, 2013.

Other Debt

In April 2012, the Company borrowed $1,500,000 to finance the purchase of software. The loan is required to be repaid in three equal installments of $500,000 due in April 2012, January 2013 and January 2014.

Note 5. Commitments and Contingencies

Sales Tax Liability

During 2010 and 2011, the Company increased its sales and marketing activities in the U.S., which may be asserted by a number of states to create an obligation under nexus regulations to collect sales taxes on sales to customers in the state. Prior to 2012, the Company did not collect sales taxes from customers on sales in all states. In the second quarter of 2012, the Company commenced collecting and remitting sales taxes on sales in all states, therefore the loss contingency is applicable to sales and marketing activities in 2010, 2011 and the six months ended June 30, 2012. As of September 30, 2013 and December 31, 2012, the Company recorded a long-term sales tax liability of $4,003,000 and $3,877,000, respectively, based on its best estimate of the probable liability for the loss contingency incurred as of those dates. The Company's estimate of a probable outcome under the loss contingency is based on analysis of its sales and marketing activities, revenues subject to sales tax, and applicable regulations in each state in each period. No significant adjustments to the long-term sales tax liability have been recognized in the accompanying consolidated financial statements for changes to the assumptions underlying the estimate. However, changes in management's assumptions may occur in the future as the Company obtains new information which can result in adjustments to the recorded liability. Increases and decreases to the long-term sales tax liability are recorded as general and administrative expense.

A current sales tax liability for noncontingent amounts expected to be remitted in the next twelve months of, $2,973,000 and $3,574,000, is included in accrued liabilities as of September 30, 2013 and December 31, 2012, respectively.

Legal Matters

In December 2012, CallWave Communications, LLC ("Callwave") filed a lawsuit against the Company in the United States District Court for the District of Delaware and amended its complaint twice since then alleging patent infringement by the Company and AT&T Inc. ("AT&T"), a reseller of the Company's product and services, seeking damages but no injunction.

On September 27, 2013, the Company entered into a settlement agreement with CallWave. Under the terms of the settlement, CallWave granted a non-exclusive license to the Company and agreed to dismiss all claims in the litigation with prejudice, including any claims for which the Company was required to indemnify and defend AT&T. As part of the settlement, the Company agreed to pay CallWave cash consideration which it recognized as general and administrative expense during the second quarter of 2013 as it determined the payment to be a cost to settle a loss contingency, and the amount was probable and estimable. During the third quarter of 2013, the Company paid substantially all of the cash consideration due under the settlement agreement and recorded a credit to general and administrative expense of $1,160,000 to reflect the final cost of the settlement net of insurance recovery.

Note 6. Share-Based Compensation

A summary of share-based compensation expense recognized in the Company's consolidated statements of operations follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cost of services revenues	$ 129	$ 66	$ 297	$ 175
Research and development	367	223	884	536
Sales and marketing	330	153	734	483
General and administrative	1,384	327	2,631	790
Total share-based compensation expense	$ 2,210	$ 769	$ 4,546	$ 1,984

As of September 30, 2013 and December 31, 2012, there was approximately $23,277,000 and $9,587,000 and of nonvested share-based compensation expense, net of estimated forfeitures, related to stock option grants, which will be recognized on a straight-line basis over the remaining weighted-average vesting periods of approximately 3.0 years and 2.7 years, respectively.

Equity Incentive Plans

In September 2013, the Board adopted and the Company's stockholder approved the 2013 Equity Incentive Plan (the "2013 Plan"). The 2013 Plan became effective on September 26, 2013. In connection with the adoption of the 2013 Plan, the Company terminated the 2010 Equity Incentive Plan (the "2010 Plan"), under which stock options had been granted prior to September 26, 2013. The 2010 Plan was established in September 2010, when the 2003 Equity Incentive Plan (the "2003 Plan") was terminated. After the termination of the 2003 and 2010 Plans, no additional options were granted under these plans; however options previously granted will continue to be governed by these plans. In addition, options authorized to be granted under the 2003 and 2010 Plans, including forfeitures of previously granted awards are authorized for grant under the 2013 Plan. A total of 6,200,000 shares of Class A common stock have been reserved for issuance under the 2013 Plan. The 2013 Plan includes an annual increase on the first day of each fiscal year beginning in 2014, equal to the least of: (i) 6,200,000 shares of Class A common stock; (ii) 5.0% of the outstanding shares of all classes of common stock as of the last day of the Company's immediately preceding fiscal year; or (iii) such other amount as the board of directors may determine.

The plans permit the grant of stock options and other share-based awards to employees, officers, directors and consultants by the Company's board of directors. Option awards are generally granted with an exercise price equal to the fair market value of the Company's common stock as determined by the Company's board of directors at the date of grant. Option awards generally vest according to a graded vesting schedule based on four years of continuous service and generally have a 10-year contractual term. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the option agreement) and early exercise of the option prior to vesting (subject to the Company's repurchase right). As of September 30, 2013 a total of 6,166,350 shares remain available for grant under the 2013 Plan. As of December 31, 2012, a total of 468,000 shares were available for grant under the 2010 Plan, which was terminated in September 2013 upon the adoption of the 2013 Plan.

A summary of option activity under all of the plans at September 30, 2013 and changes during the periods then ended is presented in the following table (in thousands):

	Number of Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term (in Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2012	8,609	$ 2.89	7.2	$ 40,705
Granted	3,701	11.30		0
Exercised	(593)	1.42		0
Canceled/Forfeited	(632)	4.16		0
Outstanding at September 30, 2013	11,085	$ 5.71	8.0	$ 136,491
Vested and expected to vest as of September 30, 2013	10,147	$ 5.38	7.8	$ 128,249
Exercisable as of September 30, 2013	4,612	$ 2.06	6.3	$ 73,610

The weighted average grant date fair value of options granted and the total intrinsic value of options exercised were as follows (in thousands, except weighted average grant date fair value):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Weighted average grant date fair value per share	$ 6.08	$ 3.05
Total intrinsic value of options exercised	$ 9,855	$ 1,591

The Company estimated the fair values of each option awarded on the date of grant using the Black-Scholes option pricing model, which requires inputs including the fair value of common stock, expected term, expected volatility, risk-free interest and dividend yield. The weighted-average assumptions used in the option pricing models and the resulting grant date fair value of stock options granted to employees and non-employees in the periods presented were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Expected term for employees (in years)	6.1	6.1	6.1	6.1
Expected term for non-employees (in years)	10.0	10.0	10.0	10.0
Risk-free interest rate	1.99%	0.84%	1.68%	0.96%
Expected volatility	54%	57%	54%	61%
Expected dividend rate	0%	0%	0%	0%

Early Exercises of Nonvested Options

The Company's option agreements with certain employees permit the early exercise of nonvested stock options. The Company has the right to repurchase issued but nonvested shares of common stock at the original exercise price following the termination of service. The shares are released from the repurchase right according to the vesting schedule specified in the option agreement. The Company treats the proceeds from early exercise as a deposit of the exercise price and records the cash received initially as a liability that is reclassified to shareholders' equity as the shares vest.

A summary of the status of the Company's early exercised and nonvested shares as of December 31, 2012 and September 30, 2013, and changes during the periods then ended is presented below (in thousands):

	Number of Shares	Nonvested Common Stock Liability
Nonvested as of December 31, 2011	58	$ 64
Early exercises	100	200
Vested	(58)	(60)
Nonvested as of December 31, 2012	100	204
Early exercises	—	—
Vested	(51)	(98)
Nonvested as of September 30, 2013	49	106

Employee Stock Purchase Plan

In September 2013, the Board adopted, and the Company's stockholder approved a 2013 Employee Stock Purchase Plan (ESPP). The ESPP became effective on September 26, 2013. A total of 1,250,000 shares of Class A common stock have been reserved for issuance under the ESPP. The ESPP provides for annual increases in the number of shares available for issuance under the ESPP on the first day of each fiscal year beginning in fiscal 2013, equal to the least of: (i) 1% of the outstanding shares of all classes of common stock on the last day of the immediately preceding year; (ii) 1,250,000 shares; or (iii) such other amount as may be determined by the board of directors.

The ESPP allows eligible employees to purchase shares of the Class A common stock at a discount through payroll deductions of up to the lesser of 15% of their eligible compensation or $25,000 per calendar year, at not less than 90% of the fair market value, as defined in the ESPP, subject to any plan limitations. A participant may purchase a maximum of 3,000 shares during an offering period. The offering period generally starts on the first trading day on or after May 11th and November 11th of each year, except that the first offering period commenced on the first trading day following the effective date of the Company's registration statement. At the end of the offering period, the purchase price is set at the lower of: (i) the fair value of the Company's common stock at the beginning of the six month offering period, and (ii) the fair value of the Company's common stock at the end of the six month offering period. At September 30, 2013, a total of 1,250,000 shares were available for issuance under the ESPP.

The assumptions used to value employee stock purchase rights under the Black-Scholes model during the three and nine months ended September 30, 2013 were as follows:

Expected term (in months)	6
Risk-free interest rate	0.03%
Expected volatility	42%
Expected dividend rate	0%

Note 7. Geographic Concentrations

Revenue by geographic location is based on the billing address of the customer. More than 90% of the Company's revenue is from the United States during the three and nine months ended September 30, 2013 and 2012. No other individual country exceeded 10% of total revenue during the three and nine months ended September 30, 2013 and 2012. Property and equipment by geographic location is based on the location of the legal entity that owns the asset. At September 30, 2013 and December 31, 2012, more than 85% and 95%, respectively, of the Company's property and equipment is located in the United States, with no single country outside the United States representing more than 10% of property and equipment individually during the three and nine months ended September 30, 2013 and 2012.

Note 8. Income Taxes

The provision for income taxes for the three months ended September 30, 2013 and 2012, was approximately $54,000 and $25,000, respectively. The provision for income taxes consisted primarily of foreign income taxes.

The (benefit) provisions for income taxes for the nine months ended September 30, 2013 and 2012 were approximately $(66,000) and $57,000, respectively. The benefit for income taxes during the nine months ended September 30, 2013 consisted of foreign income taxes, state minimum taxes and recognition of a foreign tax credit related to its subsidiary in China. The provision for income taxes during the nine months ended September 30, 2012 consisted primarily of state minimum taxes and foreign income taxes.

For the three and nine months ended September 30, 2013 and 2012, the provision for income taxes differed from the statutory amount primarily due to state and foreign taxes currently payable, and the Company realized no benefit for current year losses due to maintaining a full valuation allowance against the U.S. and foreign net deferred tax assets.

The realization of tax benefits of deferred tax assets is dependent upon future levels of taxable income, of an appropriate character, in the periods the items are expected to be deductible or taxable. Based on the available objective evidence, the Company does not believe it is more likely than not that the net deferred tax assets will be realizable. Accordingly, the Company has provided a full valuation allowance against the domestic and foreign net deferred tax assets as of September 30, 2013 and December 31, 2012. The Company intends to maintain the remaining valuation allowance until sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance. During the three and nine months ended September 30, 2013, there have been no material changes to the total amount of unrecognized tax benefits.

Note 9. Basic and Diluted Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase or forfeiture as they are not deemed to be issued for accounting purposes. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including preferred stock, warrants to exercise common and preferred stock and stock options, to the extent they are dilutive. Upon the effectiveness of the Registration Statement and the filing of its Certificate of Incorporation in Delaware on September 26, 2013, all outstanding preferred stock and warrants to purchase preferred stock were converted to common stock and warrants to purchase common stock, respectively. For the three and nine months ended September 30, 2013 and 2012, all such common stock equivalents have been excluded from diluted net loss per share as the effect to net loss per share would be anti-dilutive.

The following table sets forth the computation of the Company's basic and diluted net loss per share of common stock (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator				
Net loss	$ (8,852)	$ (9,568)	$ (32,732)	$ (28,307)
Denominator				
Weighted-average common shares for basic and diluted net loss per share	24,452	22,372	23,290	22,273
Basic and diluted net loss per share	$ (0.36)	$ (0.43)	$ (1.41)	$ (1.27)

The following table sets forth the potential shares of common stock that were excluded from diluted weighted-average common shares outstanding (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Shares of common stock issuable upon conversion of preferred stock	—	27,272	—	27,272
Shares of common stock issuable upon conversion of warrants	502	337	502	337
Shares of common stock subject to repurchase	49	110	49	110
Shares of common stock issuable under stock option plans outstanding	11,085	8,726	11,085	8,726
Potential common shares excluded from diluted net loss per share	11,636	36,445	11,636	36,445

The table above does not include shares recently issued upon the completion of the IPO.

Note 10. Subsequent Events

On October 2, 2013, the Company completed its IPO whereby 8,625,000 shares of Class A common stock were sold to the public, including the underwriters' overallotment option of 1,125,000 shares of Class A common stock and 80,000 shares of Class A common stock sold by selling stockholders, at a price of $13.00 per share. The Company received aggregate proceeds of $103,309,000 from the IPO, net of underwriters' discounts and commissions, but before deduction of offering expenses of approximately $3,909,000.

The Company has evaluated subsequent events through November 12, 2013, the date the condensed consolidated financial statements were issued.

EXHIBIT E

PROJECTED TOTAL REVENUE AND OPERATING EXPENSES

REQUEST FOR CONFIDENTIAL TREATMENT

RCLEC, Inc. respectfully requests confidential treatment of its financial projections. The Applicant requests that the Arizona Corporation Commission staff enter into a nondisclosure agreement for the confidential treatment of these documents.

The information contained in Exhibit E is competitively sensitive, proprietary, and confidential. The details of the RCLEC's projections are not known to RCLEC's competitors, and this type of information is not ordinarily disclosed in the industry.

RCLEC is a privately held corporation, and accordingly is not required to make public disclosure of its financial projections.

Disclosure would have adverse competitive consequences for RCLEC. Absent protection from disclosure, RCLEC's competitors would have access to sensitive financial data and proprietary information. Because RCLEC is operating in a highly competitive market, public availability of this information will disadvantage RCLEC to the benefit of its competitors. Release of this information to the public would cause unfair economic damage and substantially harm RCLEC's ability to compete in the marketplace.

Protecting the financial projections from disclosure in no way restricts interested parties from having access to the administrative hearing process. Furthermore, the harm that would result from disclosure of this information far outweighs the public interest in the details of the transaction set forth in the financial projections.

For these reasons, RCLEC, Inc. respectfully requests that the Commission afford confidential treatment to Exhibit E in support of its Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunications Services

EXHIBIT F

ADDITIONAL INFORMATION

EXHIBIT F

ADDITIONAL INFORMATION

RCLEC will operate in Arizona as a wholesale carrier offering services to other providers. To support these services, RLCEC is currently constructing a nation-wide network, which includes a core structure of transport circuits connected to high-capacity soft switches and media gateways in carrier hotels in New York, Miami, Los Angeles, San Francisco, Chicago and Dallas. Customer traffic will be picked up at one of two "super POPs" located in Virginia and California where RCLEC's equipment will be collocated with RCLEC's customers' equipment for handoff of traffic, which is then transported across RCLEC's backbone network to the appropriate switch for routing to a terminating carrier. The super POPs utilize fault tolerant, redundant equipment platforms connected to fully redundant circuits and carrier diverse meshed backbone, ensuring ensure a high level of reliability for customer traffic.

RCLEC will receive and send traffic for Arizona customers from providers and will route that traffic to its switch and media gateway located in California. RCLEC will utilize high capacity trunks between ILEC and RCLEC as well as obtaining backhaul facilities from other carriers to connect to ILEC access tandems or other points of interconnection in order to route traffic to and from Arizona end users of RCLEC's carrier customers. RCLEC will monitor its network serving customers in Arizona from a network operation center.

RCLEC initially will purchase or lease network facilities from the ILEC or other carriers in Arizona, so it does not anticipate engaging in any construction for its initial network deployment. If RCLEC anticipates the need to engage in construction of facilities at a later date, it will obtain all necessary permits and regulatory approval prior to such construction.

The Company has no Affiliates pro iding regulated telecom ser ice pro iding ser ice in Arizona and has not previously provided any type of service in Arizona, including facilities-based or resell local exchange, interexchange service, or VoIP services.

EXHIBIT G

KEY PERSONNEL BIOS

John Marlow, President and Chief Executive Officer of RCLEC, Inc.

Mr. Marlow serves as President and Chief Executive Officer of RCLEC, Inc. Mr. Marlow also oversees business and legal affairs at RingCentral, RCLEC's parent company. For the last six years, Mr. Marlow has worked as RingCentral's General Counsel and Senior Vice President of Corporate Development.

Before joining RingCentral, Mr. Marlow was the founding and managing partner of Entrepreneurs Law Group (ELG), a boutique law firm based in San Francisco specializing in corporate, securities, tax, intellectual property, venture capital, mergers and acquisitions and licensing matters. During his five years at ELG, Mr. Marlow represented companies in a broad range of industries, including software, hardware, information technology, and telecommunications.

Before founding ELG, Marlow was a partner in the San Francisco office of Reed Smith, a full-service international law firm. Prior to that, Mr. Marlow was a partner at Crosby, Heafey, Roach & May, LLP, a law firm that was acquired by Reed Smith.

Mr. Marlow received his law degree from University of California Berkeley School of Law (Boalt Hall) in 1994, and a Bachelor's degree, *summa cum laude*, from Colgate University.

Mahesh Patel, Treasurer and Chief Financial Officer of RCLEC, Inc.

Mr. Patel serves as Treasurer and Chief Financial Officer of RCLEC, Inc. Mr. Patel has over 13 years' experience and skills in finance planning and analysis, audits, SEC filings, technical accounting leadership, and ledger and financial close management.

Mr. Patel has served as the Vice President and Corporate Controller for Intematix Corp., where he was responsible for SEC filings, audits, improving internal financial controls and financial reporting systems, and accounting management. Prior to that, Mr. Patel was Senior Director of Finance and Corporate Controller and Director at QualcommAtheros, Inc., where he developed the company's Finance Planning & Analysis function, and developed reporting requirements for multiple product lines and business unit income statements. Mr. Patel managed accounting close function processes, including consolidations, revenue, credit and collections, and supervised an accounting staff of more than 25 individuals worldwide. Mr. Patel was also responsible for SEC reporting and technical accounting. Mr. Patel has also worked as an Experienced Senior Auditor at Pricewaterhouse Coopers and as a Senior Consultant at Ernst & Young.

Mr. Patel holds a Juris Doctorate degree from Golden Gate University, School of Law. Mr. Patel is a Certified Public Accountant in the State of California. He received his Bachelor of Science degree in Business Administration from the University of California, Riverside.

Bruce Johnson, Secretary of RCLEC, Inc.

Mr. Johnson serves as Secretary of RCLEC, Inc. Mr. Johnson also serves as Vice President, Legal, of RCLEC's parent company, RingCentral, Inc.

Mr. Johnson has over 25 years' experience as an attorney, and has served as in–house legal counsel to telecommunications-related companies for 14 years. Mr. Johnson served as Associate General Counsel of Atheros Communications, Inc., a provider of wireless and wired connectivity semiconductors and systems, where he handled and effectively managed every aspect of Atheros becoming and remaining a publically traded company in good legal standing. He served as Senior Director and Legal Counsel for Qualcomm Atheros, Inc. following the acquisition of Atheros by Qualcomm Incorporated. Prior to that, Mr. Johnson served as General Counsel to Vyyo, Inc., and prior to that, Mr. Johnson was an Associate and Partner at Bay Venture Counsel, LLP, a law firm, and an Associate at Brobeck, Phleger & Harrison, a law firm.

Mr. Johnson holds a Juris Doctorate degree from University of California at Los Angeles, School of Law. Mr. Johnson received his Bachelor of Arts degree in Economics and English from Duke University.

Jeff Slater, Senior Director of Voice Gateways of RCLEC, Inc.

Mr. Slater serves as the Senior Director of Voice Gateways at RCLEC, Inc.

Mr. Slater has 30 years managerial experience in the telecommunications industry. Mr. Slater's experience includes executive management, business plan development, product and service development, engineering, network implementation, operations management, back office integration, vendor and facility contract negotiations, regulatory and compliance processes, and development of new sales channels both domestically and internationally.

Mr. Slater has served as the Chief Operating Officer of Covista Communications, providing traditional long distance, UNE-based local service and next generation SIP trunking and hosted PBX products to residential and business customers throughout the US. Prior to that, he was President of Broadvox, a CLEC providing next-generation local service using and providing IP originated and terminated calls.

As Vice President of Business Development at CIMCO, Mr. Slater was responsible for planning the next generation of products, services and network topologies for the company. Mr. Slater was responsible for managing the IP-based SMB business initiative, building network strategies to overcome UNE regulatory issues, mapping CoEu, wireless and fiber network strategies, and auditing all internal process to secure retroactive and prospective cost savings.

As the President of Cedar Valley Communications, Mr. Slater succeeded in developing and implementing a reorganization plan, attaining positive cash flow, and attracting equity investments resulting in the sale of the Company.

Mr. Slater has also held executive positions as Founder and President of JTek Systems, Chief Operating Officer of TotalTel, a Covista Communications Company, Vice President of Operations of Charter Network, and Director of Lexicom.

Mr. Slater received his degree in Business from DePaul University.

Curtis Lee Peterson

Mr. Peterson serves RC EC in a consulting capacity to contribute his technological and managerial knowledge to RCLEC, Inc.

Mr. Peterson has established his ability to rapidly grow businesses when he helped NuVox grow from a $550,000 business to $550M in ten years. Mr. Peterson also has strong skills in VOIP, IP Networking, and Information Technology. His information technology experience includes software design and design management, hardware and network design, security, implementation and deployment, virtualization/cloud services management of rapid application development, and multi-department project management. His network operations experience includes VOIP, TDM, wireless, aggregation, content delivery networks, data centers, high availability applications, network design and operation, and SAAS.

Mr. Peterson developed his technical and managerial skills in his long career at NuVox (previously NewSouth Communications, Inc.). As Vice President of Center Operations of NuVox, he managed 120 technical professionals, improving the customer base and reliability of the VoIP network. Mr. Peterson oversaw the operations of 29 Class 5 switches, 40 Central Office Sites, 500+ collocations, 4 Customer (SAS-70 II certified) data centers, 24 Softswitch gateways, 16 state MPLS / IP network with over 550 routers, and the VOIP platform.

Mr. Peterson worked in diverse managerial positions throughout his career at NuVox, including Director of Data Product Development/Senior Manager of Data Products, Director of Customer Marketing, and Director of IT. Prior to that, Mr. Peterson was Director of IP Operations at Talk.com (formerly Omnicall), and District Technology Coordinatory for a multi-campus school district.

Mr. Peterson holds a degree in Computer Engineering from Auburn University in Auburn, Alabama.